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(Preliminary Version)

THE NATURE OF THE POLICY AND TACTICS
OF SOVIET-TYPE ECONOMIC WARFARE
(1949-1952)

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SOVIET-TYPE ECONOMIC WARFARE (1949-1952)

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INTRODUCTION

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I. PREMISE - TOTAL POLICY AIDS OF THE SOVIET BLOC

It is frequently agreed, in assessing the "political" aspect of Soviet Bloc power and policy, that the ultimate end of Communist policy is world domination and the destruction of non-Soviet society. In order to achieve this objective the Communists resort to both direct and indirect aggression. These facts must be borne in mind when interpreting any aspects of the total Soviet policy. The Soviet Union is engaged in direct and indirect aggression in the sense of calculated, unprovoked attack in the economic as well as the other fields.

The Soviet world has tried, somewhat successfully, to convince the Free World that trade and "total politics" are entirely separate matters, and they would like to convince the West that Soviet Bloc economic policies and aims are completely traditional and in line with those of the West (excluding, of course, United States discrimination) even though serious basic military and "political" conflicts are raging. Although they try to propagate this divisibility of policy, the Communists act and formulate their own policy on the contrary assumption that economic, military, and psychological policies are merely aspects of unified total policy geared to consistent total objectives.

These are the underlying premises of this paper, which is an attempt to outline the strategy and tactics which the USSR and the Soviet Bloc countries utilize in the field of international trade. The strategy

* See Appendix A - The Soviet Propaganda Line on Trade.

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pertains to fundamental policy, the nature of that policy and its objectives, while the tactics are the operations and operational patterns through which the strategy is developed. The tactics may very markedly and even appear self-contradictory at times but they are perceived as consistent in relation to the over-all strategy and ultimate goals. Communist principles are at variance with those governing Free World trade policies and constitute, in effect, a type of economic warfare which places the West at a serious disadvantage unless recognized as such and effectively countered.

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II. NATURE OF SOVIET-TYPE STATE AND
ECONOMY AND THE OBJECTIVES GOVERNING TRADE

To understand fully the nature of Soviet Bloc trade policy it is necessary to keep in mind the nature of the Soviet Bloc economies and the totalitarian system of which they are a part. Briefly, the USSR and the Soviet Bloc satellites are planned, or centrally controlled, economies and aggressive totalitarian states. They all are, or are becoming, continuous "war economies", modified only by the necessity of meeting minimum requirements of internal consumption. By contrast, the Western nations are "consumption economies", modified only by the necessity of meeting minimum requirements for defense. Inherent in the Soviet system is the power to maximize (within the framework of its goals) the exploitation of human and other resources. By the means of a permanently imposed austerity, the government commands a sizeable "surplus" product for direct pursuit of its policies at home and abroad. This is significant because the resources thus at the direct command of the government constitute a considerably greater share of the national product than those available to governments of the "consumption economies" of the West. This so-called "surplus" product is allocated for development of the industrial-war potential of the Soviet areas and financing the "cold war" of indirect aggression or, as in the case of Korea, direct aggression abroad.

The trade policies of the Soviet Bloc countries are completely state-determined policies with the dual objectives of: (a) developing as rapidly as feasible the economic independence of the Soviet Bloc from non-Bloc

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economies, and (b) disrupting and obstructing Free World efforts toward economic recovery, development, and economic and military defense (ECA, security trade controls, NATO, etc.)

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III. ECONOMIC WARFARE

Soviet Bloc policies and practices constitute a type of economic warfare. This thesis arises from the nature of the Soviet objective of disrupting the Western economies and the nature of the tactics employed. The doctrines and developments of the past century have made it impossible to confine our concept of warfare to a situation involving a declaration of hostilities or the deployment of military forces in combat or blockade operations. Warfare of the twentieth century is a relative term to describe a range of conflict. This conflict is carried on by illegal as well as legal activities, with the purpose of weakening or destroying a selected opponent, and may or may not extend to open use of military force. It is judged herein that a nation which conducts all foreign trade through government channels with a definite policy of circumventing and undermining the laws and regulations of its trading partners, with a policy in which strategic considerations are primary, and with tactics which include price manipulation and financial pressures to obtain its objectives of economic "independence" and the destruction of foreign economies - must be described as being engaged in a form of economic warfare.

The analysis of Soviet Bloc policies and tactics developed in this paper has led to the conclusion that this is the policy of the Soviet Bloc and type of economic warfare in which the Bloc is engaged.

Whether, for various tactical and diplomatic reasons, we desire to label this situation so bluntly in discussions with our more implicated and cautious allies is another question. In any event, it is imperative

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to recognize the nature of the situation frankly in the formulation and appraisal of our own-economic defense policies.

Acceptance of the fact of Soviet economic warfare does not mean that the only answer is declaration of economic hostilities with full scale embargoes, etc., leading to a situation of no retreat. On the contrary, the recognition by the Free World of the nature of Soviet economic activities is, in itself, an essential and significant step in its defense. Without this recognition and understanding, defense becomes at best an ineffective ad hoc reaction to the dynamics of Soviet activity. It has been repeatedly shown that in the economic field, as well as in other areas of conflict, the Soviet Bloc becomes increasingly aggressive primarily when its opponents consider themselves and act as if they were in a relatively weaker or less coordinated condition than the Soviet Bloc. The Free World, as a whole, has far greater actual, as well as potential, economic superiority. However, the countries of the Free World, acting individually in relative isolation from each other, have become prey to the coordinated economic manoeuvres of the Soviet Bloc. Soviet Bloc warfare in the economic field is as far advanced as in the military, partially because the Free World is far less coordinated and conscious of danger in this field of conflict.

Possibilities for Western action in strengthening its position are discussed in another paper.* However, it can be noted here that the primary necessity is to recognize that the Free World needs two specifically different foreign economic policies. The fundamental United States policy of promoting free enterprise, freer trade and a minimum of restrictions is

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*Western Coordination in Trade with the Soviet Bloc

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applicable only in dealings within the Free World. An entirely different policy is required for the other half of the divided world. Relationships vis-a-vis the Soviet Bloc must be developed as an effective counter to a clearly defined policy of economic warfare and not merely on the basis of ad hoc exceptions to and mitigations of the Free World policy.

Our economic cold war policy must be as positively conceived and intentionally planned as our Free World economic policy. While the objectives of the Free World economic policy are promotion of commercial goals, the strengthening and development of the Free World, the objectives of the economic cold war policy must be to weaken the Soviet Bloc economy relative to the Western world and to wrest from it the initiative and advantage in the trading relations. At the heart of this economic offensive must lie a coordination of Western economic policies, just as the development of international agreement and reciprocal cooperation underlies the expansion of Free World trade.

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IV CONTENTS

Most of the facts contained in this paper are not new, however, they have previously been given little attention in the formulation of Western foreign policy. This was either because they have been available only in fragmentary, unrelated form, or because in the press of operational activity they have been only partially analyzed or have been viewed on the misleading assumption that Soviet economic policies are guided by the same commercial principles which prevail in the trading activities among the Free World nations.

This paper is composed primarily of an outline of statements which, taken together, constitute a description of the nature of Soviet Bloc trade policy and strategy and the pattern of operations and tactics. Although the Soviet Bloc policies described have general applicability to economic relations in all part of the Free World, the particular focus and the examples pertain primarily to trade between Western Europe and the European Soviet Bloc, conducted for the most part through a system of bilateral trade pacts.*

With reference to each point in the outline statement, instances are cited or quotations given from the experience of the past few years to support the statement. It was necessary to confine discussion to the

*For description of the nature of these agreements and the general mechanism of East-West trade see OIR 5164, East-West Trade and Trade Agreements, DRS-DR-9, East-West Trade - Its Nature and Mechanisms and Appendix C of this paper which contains excerpts from DRS-DR-9.

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period 1949-1952, but the policies and practices described in many of the instances antedate that period.

Many of the points which are made will seem axiomatic to those familiar with Soviet economic theory and practice as well as general traditional economics. However, supporting comment seems pertinent in most cases, because to those familiar only with Free World trading practices and policies the most axiomatic may at first seem the most disputable.

In this review, the nature of the Soviet-type state must be constantly borne in mind. Economic information of all kinds is regarded as a state secret. The Soviet policy of publishing no real statistical data* on the economy and curtailing all satellite publications to conform to this policy is symbolic of the entire Soviet economic operation. It is not accidental that it is difficult to find concrete evidence, let alone direct statements, of the most important Soviet Bloc economic policies and tactics. Rather, the amazing thing is the number of forthright statements which can be found, and yet which are continually ignored or noted in meaningless isolation by Western observers. It is certainly Soviet intention that their economic, as well as diplomatic and other foreign policy operations, appear to follow for the most part, conventional Western procedures and

*The only data released refer to relatively and increasingly meaningless, if not falsified, percentage changes, with hidden bases. For example, reference is occasionally made in the press or a speech that Czech trade with the USSR and Peoples' Democracies now constitute a certain percentage of total Czech trade, etc., (without even a separate designation of exports and imports.)

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forms. Consequently, for every indication of the use of price manipulation for non-commercial ends one could probably find many instances of apparent adherence to strictly commercial practices. If one classifies the instances merely as a slight aberration of the normal commercial-objective type policy, one misses completely the nature and form of the Soviet economic operations.

The examples included were chosen from a mass of available documentation and it is believed they are among the best to illustrate the stated points. It was not feasible, at this time, to undertake exhaustive research on every case cited. It is therefore possible that, in light of further investigation, some examples cited may not prove to be the best illustrations of the given point. Nevertheless, it is believed that sufficient documentation exists in this report and elsewhere to support all the main lines of the thesis.

It is hoped that the net effect of the outline and supporting statements will be to show the inter-relationship of the various facets of Soviet trade activity, generally viewed frequently in isolation, and that this will result in a clarified understanding of Soviet economic objectives, policies and tactics. This, in turn, should serve as a stimulus to reappraisal of some of the economic strategies of the Free World.

Appendix A contains a collection of statements on the general subject received from our Embassies. In many instances these statements indicate a pattern of comment similar to that developed in this paper.

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PART I

THE NATURE OF SOVIET BLOC TRADE POLICIES
AND STRATEGY

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PART I

I. STATE MONOPOLY OF FOREIGN TRADE

Soviet Bloc foreign trade is a complete monopoly of the state. The nationalization of the foreign trade of the USSR occurred on April 22, 1918. A decree, signed by Lenin and Stalin, stated:

"All foreign trade is nationalized. Commercial transactions for the purchase and sale of any kind of products, i.e. with foreign states and individual trade enterprises abroad, are made on behalf of the Russian Republic by agencies specially authorized for that purpose. Any import or export transactions with foreign countries through any other channel are forbidden." 1/

This law was described in the Soviet economic journal (Vneshnaya Torgovlya, (Foreign Trade)) as "one of the most important measures of the Soviet government in guarantying the building of socialism" in the USSR. 2/

The Stalin Constitution makes the foreign trade monopoly a constitutional feature of the Soviet system:

Article 14 stipulates that "the jurisdiction of the USSR, as represented by its higher organs of state power and agencies of state administration embraces, ... (h) foreign trade on the basis of governmental monopoly." 3/

A description of the nature of the foreign trade monopoly of the Soviet Union contained in Administrativnaya Pravo, SSSR (Administrative Law of the USSR) opens with the following statement:

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"The monopoly of foreign trade is one of the principal foundations of a Socialist State. Lenin envisaged it as a most important instrument for the defense of Socialist construction and of the economic independence of the Soviet State".

A resolution of the Central Committee of the Bolshevik party is then quoted: ...

"...the essence of the monopoly of foreign trade consists of the fact that the state itself is engaged in the conduct of foreign trade, through a specially created agency ...establishes, by means of export-import plan, on the basis of the tasks of economic expansion and socialist construction what and in what quantity shall be exported from the country and what shall be imported." ✓

This system of trade has been promptly inaugurated in the satellites, where it also is considered a primary base of the economy. All of the satellite state monopolies are probably not yet fully patterned on the Soviet model and some still utilize connections of commercial agencies of the pre-war Soviet regimes, but the basic transition to a state monopoly has been made in all cases. In an article on the "Forms and Methods of Economic Cooperation between the USSR and the People's Democracies" in the Soviet journal Problemy Ekonomiki, (Problems of Economics) it is stated:

"Possessing the commanding heights, the people's democratic state utilizes its foreign economic relations in the interests of socialist construction. The people's democratic governments took foreign trade into their own hands as one of the commanding heights ensuring the strengthening of the leading role of the working class in the state and on the basis of the extremely rich experience of the USSR established the state monopoly of foreign trade in their countries. In Poland, Czechoslovakia, Bulgaria, Hungary, Rumania and Albania foreign trade is carried out on the basis of monopoly by foreign trade federations and companies, specially set up for this purpose, which are subordinated to the Ministries of Foreign Trade of these countries. (In Albania the Ministry of Trade discharges this function.)...

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The monopoly of foreign trade in the countries of people's democracy is firstly, a means for the maximum promoting and stimulating of the development of the socialist productive forces of these countries, secondly, an instrument for the defense of their planned economy from the penetration and corrupt influence of imperialist capital, and thirdly, a means for the strengthening of planned economic ties with all countries of the socialist camp. The monopoly of foreign trade in each one of the countries of people's democracy is a means for the planned coordination of its economy with the economy of all countries of the socialist camp, coordination which is aimed at mutual assistance in the economic development of these countries." 5/

Too often the features of the Soviet Bloc trading system, as outlined above, are cited descriptively without further requisite comment on the effect of such a system upon its trading partners in the Free World. It is imperative to note the advantages which such a system affords a Soviet Bloc country in dealing with the foreign traders of the Free World.

In economies in general, and particularly with reference to national economies, the significance of monopoly power in the relatively free market has long been recognized. A particularly large buyer (monopsony) or seller has inherent in its very position the ability to influence prices and take other action of a discriminatory nature for its own benefit, which are not open in a freer competitive market. It is stated that "the existence of the power, even without conscious will to exploit it, is sufficient to yield some monopolistic fruit." 6/ But in the case of the totalitarian Soviet Bloc countries, governed by the aggressive objectives of the Kremlin, it can be assured that there is certainly a "will to exploit it", whenever advantage will be gained for the Communist objectives. The existence of the Soviet Bloc monopoly and monopsony power present very real problems to the exporters and importers of the Free World, and there should be

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no question but that the Soviet Bloc countries are able to buy and sell on better terms than if their trade was conducted by a number of merchants acting independently of one another.*

Thus with the combination of monopoly and totalitarian power, the Free World foreign trader is faced with a situation antipathetic to the principles governing his other exchanges in a competitive market of "private" traders. He is placed at a considerable disadvantage.

Harry Schwartz in his book, Russia's Soviet Economy, 7/ outlines some of the advantages of the Soviet type of state monopoly in foreign trade relationships as follows. He refers specifically to the USSR, but the points are generally applicable to the other Soviet Bloc countries:

(1) "At any given time, the Soviet Government knows its position in relation to the rest of the world and each foreign country separately, thus greatly simplifying the formulation of policy. This has been particularly important in the past two decades, when foreign currencies have not been freely interchangeable, raising complex problems of currency

control

*The impact of the Soviet Bloc monopoly power should be especially clear to trained economists. Jacob Viner, in Trade Relations between Free and Controlled Economies, (League of Nations, 1943) in discussing practices of governments as traders, points out that governments rarely follow the rule of buying in the cheapest market and that it is logical to expect that any agency having monopoly power would follow the practice of what he calls "discriminating monopsony, i.e., "instead of buying only in whatever market happened to have the lowest prices, as a competitive trader would endeavor to do, it buys at higher prices in markets with elastic supplies and lower prices in markets with inelastic supplies, and instead of endeavoring to equalize its purchase prices in different markets it sought to equalize as between the different markets its marginal expenditures per unit, or the net additional outlays for additional units of purchase after allowance for the effect of its purchases on prices."

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control and clearing in foreign trade."

(2) "Its monopoly of foreign trade permits the Soviet Government to insulate its domestic price system from prices prevailing in world markets. The prices at which the Soviet Union buys or sells goods abroad need not, and frequently do not, have any close relationship to the prices of the same commodities in the Soviet Union itself."

(3) "Where and when necessary, the managers of the U.S.R.'s economy can and do act against the interests of particular groups of Soviet producers and consumers in making decisions about foreign transactions."

(4) "As the sole buyer and seller of goods and services for the USSR, the Soviet government has a strong bargaining position as against competing buyers and sellers in other countries. There is no competition among Soviet buyers and sellers on the foreign markets to affect prices adversely from their point of view."

(5) "In advancing its economic interests abroad, the Soviet government is able to back them with all its political, economic and military might, giving it substantial advantages frequently over individual foreign enterprises or weaker foreign states."

The German Bundestag in its April resolution on East-West trade took cognizance of the advantages of the monopoly system. The Federal Government was requested, particularly in connection with its trade agreements with the Soviet Bloc, to protect the German economic and political interests in face of the foreign trade monopoly systems of the Soviet Bloc countries. 8/

In the

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In the above we have referred, for the most part, to the monopoly power of the individual Soviet Bloc countries, which accrues from their state monopolies of foreign trade. Obviously, this power would be greatly multiplied in those cases in which the Soviet Bloc could be considered as an entity. Although we will show that extensive coordination of policies exist, doubtless there is still a certain amount of competition among the satellites with respect to the exchange of relatively low priority goods. Nevertheless, with regard to the exchange of highly strategic goods with the Free World and probably with regard to financial operations as well, the Soviet Bloc should be considered as a trading bloc centered in Moscow, in terms of the monopoly power it exerts.* This situation arises out of the very nature of the close coordination of economic and trade plans. The Soviet Bloc requirements and the plans for exportation to the West of such important products as iron and steel, coal, non-ferrous metals, etc., must be determined on an area basis as the economic plans of the area are coordinated, and it appears that the arrangement, in some cases, is to have the strongest buyer or seller among the Bloc countries carry on most of the trading with the Free World. In such cases the monopoly advantage will be very great.

One outstanding example of the way in which the Soviet Bloc has been able to capitalize in its monopoly power position is found in the case of coal

*Part I, Section II deals at length with this question of Soviet Bloc trade coordination.

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coal. The coal market in the prewar period was largely competitive, while today sales of Eastern European coal are made solely through the Polish and other state monopolies. The Soviet Bloc itself has deemed this a commodity of "strategic" importance and it is undoubtedly under quite extensive and direct Soviet control. There is no question but that the Poles have been exploiting the Western European need for coal. They have raised their prices far above other Western European producers, particularly after the Korean war, and admittedly followed a policy of charging just a little below, or above, the cost of American coal delivered to Europe.

The fact that trade between Eastern and Western Europe is carried on within the framework of bilateral trade agreements does not alter basically the monopoly position of the Soviet Bloc countries. These intragovernmental agreements, do not mean that trade of the Western government is actually conducted by the state. The agreements generally provide merely for the issuance of export and import licenses. These agreements, for the most part, are thus a framework mechanism. The Soviet state monopolies maintain their "monopoly" advantage virtually unimpaired, for the contracts for specific exchanges are negotiated by the Soviet Bloc trade monopolies with individual Western buyers and sellers, among whom there is a very considerable element of competition.

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II. DECREASING ECONOMIC DEPENDENCE ON THE FREE WORLD--

A BASIC SOVIET BLOC GOAL

A primary Soviet Bloc economic aim is the rapid expansion of industrial facilities and progressive utilization of available resources in an effort to decrease, and eventually to eliminate, its dependence on the non-Soviet world. Exports are planned for the purpose of obtaining needed imports or developing the means of obtaining them. The development of markets for "surplus production" and other elements of "free" competitive economies are not factors in Soviet trade.

Sometimes, this drive is described as a drive for autarchy--e.g., self sufficiency, isolation from outside world. This term, autarchy, should really be discarded as inaccurate in that the ultimate aim is not so much isolation as the situation which would reverse the present position of relative economic dependence between the Communist and non-Communist sectors of the world economy and create a situation of dependence upon them, particularly in the peripheral areas. The Soviets seek independence from the necessity of importing any given commodity at any given time, not in order to isolate themselves but in order to reduce their own dependence and further their base for aggressive expansion.

This policy, and Soviet actions in its implementation, make it clear that the traditional prewar trade relations between East and West can no longer be considered valid or likely of reestablishment.

This

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This Soviet objective has been officially stated on numerous occasions. The article of the Soviet Government on "Thirty Years of Soviet Foreign Trade" includes a quotation of Lenin which sets forth this ultimate objective:

"In proving the necessity for developing foreign trade relations with capitalist countries, V. I. Lenin stated that '... our basic interest is to obtain from the capitalist countries at the earliest possible opportunity those means of production (locomotives, machines, electrical apparatus) without which we shall not be able to rehabilitate our industry to any appreciable extent, and...the sooner we do this, the firmer will be our foundation for economic independence from capitalist countries.'" (Lenin, Works XXVI, pp. 12 to 18) 9/

The last volume of the latest edition of the Bol'shaya Sovetskaya Entsiklopediya, SSSR. (Large Soviet Encyclopedia), in describing Soviet commercial policy, makes clear that exports are considered primarily as a means of obtaining imports required for internal economic development.

"The import plans of the USSR were determined by the main objectives of the foreign trade of the Soviet Union--maximum assistance and promotion of the development of the productive capacities of the country--and exports were, in the main, means to pay for imports." 10/

In the book Vneshnaya Torgovlya, SSSR. (Foreign Trade of the USSR), the prominent Soviet economist, D. D. Mishustin, bluntly stated the Soviet goal:

"The main goal of the Soviet import (policy) is to utilize the foreign products, and, above all, foreign machinery... for the technical and economic independence of the USSR... The import policy of the USSR is so organized that it aids the speediest liberation from the need to import..." 11/

Spokesmen

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Spokesmen for the satellites have reflected the same policy.

In late 1949 Polish Premier Minc stated these objectives of attaining "independence" when he said:

"as for...economic relations with capitalist countries, the task of...the Peoples' Democracies is to make themselves more independent of capitalist economy, creating conditions for the swiftest advance towards socialism...Consequently, in planning foreign trade between the Peoples' Democracies and the capitalist countries it is not the aim of the former to secure the broadest development of these relations, irrespective of their content and the results, but to establish relations which will facilitate the strengthening of the given country in its position as a socialist state..."
12/

The goal is also apparent in discussion concerning the East German Five Year Plan in which it was stated in one source:

"The aim of the current Five Year Plan (1951-1955) is not only to counter the detrimental effects of these (various) bottlenecks on GDR industry and economy, but also to make the GDR independent of West German imports by 1955."13/

And in another source:

"Efforts of the GDR to obtain alternative sources of supply for items unobtainable in the West have been closely related for its general policy of achieving industrial self-sufficiency and of becoming, as far as possible, independent of all supplies from the West whether previously obtainable or not."14/

The same policy is seen in Czechoslovakia. A former member of the Foreign Ministry of Trade reported that the reduction of Czech dependence on imports from the West is pursued as a matter of principle and with high priority. 15/ Another such official reports a specific meeting at which Czech foreign trade policy objectives were outlined.

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"I was present at an all-ministry plenary meeting of the Communist Party in the Ministry of Foreign Trade in fall of 1950 when Minister Dr. Gregor spoke concerning Czechoslovak foreign trade policy. He emphasized that, as a primary political task, it was necessary for the national economy to achieve independence from trade with the West. This was, and still is, the main objective of Czechoslovak foreign trade." 16/

The comments of two former Czech trade officials are summarized in another report:

"The connotative substance of their remarks clearly implies that the political aims of Czechoslovak economic policy is to create sufficient industrial productive capacity to enable Czechoslovakia to reduce drastically or eliminate economic dependence on the West and to strengthen the political power of the Soviet bloc. Both informants unequivocally stated that the only reason Czechoslovakia trades with the Federal Republic and with the rest of the Western European countries is to obtain essential commodities. If this objective becomes unrealizable, the Czechs would terminate economic relations with the Federal Republic without hesitation." 17/

III. LONG-TERM

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III. LONG-TERM CENTRALIZED PLANNING AND PRIORITY GOALS

A. Centralized Planning

Although it is generally recalled that the Soviet Bloc internal economies are governed by centrally controlled economic planning, it is sometimes forgotten that all foreign economic activities of these nations are also conducted within the framework of foreign trade plans and that these plans are a closely integrated segment of the total economic plans. This point was apparent in the discussion of the two previous sections, but since the implications of this system are so significant in trade relations with the competitive economies of the Free World it seems necessary to discuss this feature of the Soviet Bloc economies at greater length.

The trade plans of Soviet Bloc countries are now considered top state secrets. nevertheless, from various intelligence sources and from documentation which became available during the period of less severe satellite security controls, we know the general nature of these plans, how they are prepared, and that they are quite detailed. Occasional Soviet Bloc announcements now only present broad summarizations of the plans, stating that certain percentages of a particular satellite's trade will be with the USSR, a certain percentage with the "peoples' democracies," and certain percentages with the West.

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It has been possible to compose a generalized description of the evolution of a foreign trade plan of a satellite country. This is outlined below. The details would naturally vary from country to country and from time to time:

The State Planning Bureau of the satellite government prepares a general production and consumption plan taking into account the productive capacity, available manpower, domestic raw materials, long term objectives, etc. of the various sectors of the economy. Import requirements are developed as an integral adjunct to this general economic plan. The needs of the various industries and stockpiling operations for imported raw materials, finished products, and consumer goods are included in this plan. These requirements are probably determined by the same bureau. The plan is then submitted to the Ministry of Foreign Trade. With this determination of import requirements the Foreign Trade Ministry develops a plan which will include provisions for exports sufficient to obtain foreign exchange or other means to pay for the required imports, payments for international obligations, maintenance of diplomatic offices, etc. This export plan is prepared in accordance with the prevailing export policy determined by the government, the governing directives from the Council of Mutual Economic Assistance (CMEA), and Moscow. For instance, one reported general policy directive was that iron and steel products were not to be exported to the Free World, unless absolutely necessary to

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to obtain top priority requirements, thus they would be included in the export plan only under these special conditions. One director cited another directive in describing the planning arrangements: "...the requirement to export as far as possible goods manufactured solely from domestic raw materials." 18/ The general policy governing satellite trade clearly provides that the requirements of the USSR should first be satisfied and then those of the satellites to the greatest extent feasible, regardless of the effect on trade with other areas.

The individual national plans are submitted to Moscow, probably now through CEMA, together with the plans of the other satellites. These plans are rationalized, with Soviet requirements predominant. There is some indication that counter import-export plans may actually be prepared in Moscow at some stage, but whether or not this is the exact procedure, it seems clear that the economic and trade plans are subject to coordination and approval in Moscow.

Besides the obvious advantages of coordination of policy and plans, this type of general and specific economic planning has particular significance in that it fosters the conscious utilization of the time element as a factor in Soviet Bloc operations. The Soviets have repeatedly shown their skill in utilization of the time element. With a consciousness of their long term goals and assurance of the general direction

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direction of their policy, in relation with other countries, they may grant what appear as temporary concessions in order to procure a real objective at some future date. This tactic is perhaps illustrated in the purchase of an item of highly strategic interest in ensuing negotiations several months or even a year or two hence. Such a tactic is impossible of success unless formulated on the basis of concrete comprehensive long term planning. This tactic, unless understood, also tends to create confusion in the West and the appearance of a lack of consistent plan is often erroneously attributed to Soviet policy.

Such

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B. Commodity Priorities

Such a system of foreign trade planning means that all Soviet Bloc trade is conducted within the framework of an established but flexible and changing system of priority goals, both with respect to the commodities to be purchased and sold, and with respect to the trading partners. The operations of this system of priorities are not always apparent, but it is nevertheless an indisputable aspect of the Soviet Bloc trading system.

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commented

succinctly upon this "priority" feature of Soviet Bloc trade:

"In deciding what items should be imported into Czechoslovakia, either from the East or the West, all prospective acquisitions are classified according to an economic priority coefficient." 19/

A published announcement of the barter trade law of Communist China is one of the most revealing official documents available on the operation of Soviet-type "priority" planning. The announcement contains detailed stimulation of priorities for purchasing and selling goods. The lists are built on an old customs export and import tariff code but are completely rearranged for current usage and specifically set up to divide all importable and exportable commodities into three schedules, in accordance with their importance to the national economy and welfare. The law can be considered as quite indicative of the centrally planned trading system of priority purchases and

sales

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sales and their arrangements on a specific quid pro quo basis, which characterizes Soviet type trading in general.

"Barter Schedule A: Commodities under this category are considered to be of vital importance to the national defense, economy and general welfare. They included such imports as indispensable to China's industrialization, agricultural production, communications. Exports under this category include strategic materials, important China produce which has a wide foreign market, and articles which are domestically needed but may be exported in exchange with more urgently required imports. The export of tungoil, bristles, soybeans, beancake, raw silk, black tea, egg products, goat skins, rice and wheat are some of the items included in this category. Exports under this category may be made only in exchange with imports of the like category.

"Barter Schedule B: Commodities under this category are considered to be of secondary importance, such as imports that can be domestically produced, substituted by others, or not absolutely necessary but nevertheless considered to be good bargains if exchanged with exports of the B and C schedules. On the same principle, exports under this category are those having a limited foreign market. They include eggs, feathers, coarser grains, minor vegetable oils and oilseeds, miscellaneous beans, casing, peppermint, etc.

"Barter Schedule C: This category denotes commodities of minor economic value. It contains imports of luxury food and others which are either domestically available or not welcome for economic reasons. Exports under this category are minor China products which have very limited foreign markets, handicraft articles and luxury foods. Exports under Schedule C may be exchanged with any of the imports under Schedule C, B and A. In order to encourage exports of commodities under Schedule C, the Canton Foreign Trade Control Bureau recently removed the requirement of bartering with imports on a large number of export articles under Schedule C." 20/

C. Country

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C. Country Priorities

Just as the trade is conducted according to centrally established priorities with regard to the commodities exchanged, so the matter of trading partners is determined in line with a system of priorities, or preferences. There should be no doubt that each of the satellite countries gives primarily preferential treatment to the USSR in its trade transactions, and secondly to the other satellites if the plans so require. It is quite likely that trade with the different satellites and with the different countries of the Free World is also determined by established priorities within each group, but it is not possible to provide data on the exact order of priorities at any given time. On the other hand, enough information is available to indicate that trade is determined not merely by the commodity involved, and its priority of importance as an export or import, but also by the country of destination, at least whether it is Free World, USSR, or satellite. For example, it was reported in August 1951 that Moscow had issued categorical instructions that no offers of grain should be made in Western Europe by satellite countries until the current Soviet negotiations with the British Ministry of Food were concluded. 21/

This system of priorities is not deduced merely from observations of Soviet practices but is explicit in their own observation of Soviet practices but is explicit in their own statements, such as the following:

"Deputy

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"Deputy Premier Rau of East Germany stated in February, 1952 at a meeting of the Peoples' Chamber; "... it is only natural and in keeping with the interests of our people that our foreign trade should be focused and should be solidly and permanently based on our economic relations with the Soviet Union, the Peoples' Democracies and the Chinese Peoples' Republic. " 22/

The various defectors from the Soviet regimes refer to the fact that the satellites must render first priority to the import and export needs of the Soviet Union. Such policy has also been mentioned specifically with regard to Czechoslovakia, Poland, Rumania, and Bulgaria.

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[REDACTED] had this to say about the interests of the USSR:

"...throughout the Ministry of Foreign Trade there is one rule which must be obeyed if one wants to survive: to immediately and completely attend to any matter which concerns the Soviet Union, even if it means neglecting other more important and beneficial matters. This attitude greatly contributed to the decline of Czech exports to the West. Goods which originally had been earmarked for export to the West had to be transferred to the USSR whenever deliveries to the Soviet Union were not completed on time." 23/

A similar report states:

"Among Czechoslovak exports, shipments to the USSR have first priority. In this respect even consumer goods badly needed on domestic markets are shipped to the USSR in a complete disregard for Czechoslovakia's own needs. I remember clearly all the confusion and enormous efforts of the ministry when some export item earmarked for the USSR was short, or plants manufacturing export goods for the USSR urged import of some spare parts in order to fulfill the export production quota. Such requirements always received top priority, and everything else had to be put aside and all efforts concentrated to solve the export problems to the USSR. This policy was, of course, detrimental to production and foreign trade as a whole." 24/

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[REDACTED] reported in late 1949 a specific Soviet directive to the Czech metal pipe industry which demanded delivery to the USSR of large quantities of pipe, principally oil field pipe, which in turn prevented Czechoslovakia from meeting promised deliveries to other countries. 25/

Another such diversion was reported concerning Czech gasoline.

"The delivery of Czech gasoline to Austria was agreed on and authorized by both Austrian and Czech officials and was to be carried out by C. S. Chemie (Czechoslovakian Chemical Industry) at a cost of \$400,000. The Czechs suddenly cancelled the agreement, in order to ship the gasoline to the East instead. 26/

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The same priority regulation was reported with regard to Polish trade policy. A Polish defector, [REDACTED]

[REDACTED] stated

that:

"A satellite country must accord every precedence to deliveries to the Soviet Union. Obligations must be honored absolutely and completely..." 27/

This forced reorientation of trade Eastward affects both exports and imports. On March 10, 1950, the Czech Minister of Industry, Gustav Klimet, is reported to have told a meeting of economic officials that Czechoslovakia must "stop importing from the capitalist world whenever these imports can be replaced by imports from the USSR, or Peoples' Democratic countries." 28/

The Minister also stated that the reorientation plan calls for the "limitation of light industry"--which formerly provided the bulk of the

the exports to the West -- "in favor of expanding heavy industry" -- which provides the bulk of exports to Russia.

The Yugoslav Government, long involved in the Soviet Bloc trade system, has based much of its public contention with the Soviet Union upon the directives of Moscow concerning Yugoslav foreign trade, and particularly the Soviet Government's insistence upon priority treatment.

In a Yugoslav press article in November, 1950, entitled "The Zloty and the Ruble" some of these views on Soviet demands for priorities were summarized:

"The Soviet Union is consolidating its economic bloc at an ever quickening pace. The isolation of subject countries from the rest of the world, increasing trade between the countries of Eastern Europe and the Soviet Union, and the revision of the (economic) plans of those countries to harmonize with Soviet interests -- these are links in the chain which is being forged by the leading Socialist states to subdue other (socialist) states.

Because of its natural wealth and strategic importance, Poland has a special place in the plans of the Soviet hegemonists -- measures which have been introduced in Poland this year indicate a continual lessening of her economic independence. It is well known that by means of three commercial treaties concluded this year the Soviet Union has forced upon Poland a structure of trade designed to give priority to satisfying the demands of the Soviet economy. According to the report of the Polish Planning Commission, during the first nine months of 1950 Polish trade with the Soviet Union increased 71 percent in comparison with the same period of 1949..." 29/

This obvious preferential treatment of Soviet Union and the satellites is pointed up in a Shanghai newspaper article of December 13, 1951:

"Various export trade groups in Shanghai recently met in a forum to discuss the promotion of foreign trade. During the meeting the following conditions of various branches of the trade were summed up: the fats and oils groups had

broadened

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broadened its collection of tungoil for export. About 400 to 500 tons were exported in a recent month and there was surplus for export to Hong Kong and Europe after meeting the demand of the Soviet Union and new democracies." 30/

An article on "Soviet Problem of Rearmament" in a Swiss newspaper, Finanz und Wirtschaft describes this system of priority:

... "In the case of all raw materials produced in any of the satellite countries, for which there is a demand in Russia, the satisfaction of the Russian demand comes first. Moscow arbitrarily decides how much of what remains may be allowed to the other countries; for instance how much Rumanian petroleum may go to East Germany or Czechoslovakia. Indeed Moscow decides how much of their own products the different countries may get. The Soviet Union dictates the prices and the satellites have to deliver or purchase at these prices." 31/

Actually, a glance at the trade statistics for the past four years presents perhaps the best illustration of the effect of this system of Soviet Bloc preferences and the entire policy of the reorientation of Soviet Bloc trade. Early in the post-war years, and before the question of export controls arose, the Soviet Union and satellites started predicting the increasing amounts of trade of each of the satellites which would be concentrated within the Soviet Bloc. The extent of Czech re-orientation of trade towards the Soviet Bloc is most striking as it is revealed in the following table: 32/

	<u>1937</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
				(1st 6 months)
Eastern Europe**	11	45	52	57
Western World	89	55	48	43
Total	100	100	100	100

* Another estimate of the extent of Czech trade reorientation toward the Soviet Bloc is given by a former member of the Ministry of Foreign Trade as: 33/

1948:- 30 - 35 percent
 1950:- 60 percent
 (Plan) 1951:- 65 percent
 (Estimate) 1953:- 80 percent

In the

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In the words of the Soviet Bloc press (Rabotnichesko Delo, Sofia daily newspaper) "Commercial ties between the USSR and the Peoples' Democracies are constantly growing stronger". The following figures are cited:

"The Peoples' Democracies now represent more than 65 percent of the volume of USSR foreign trade.

The trade between the Peoples' Democracies is also growing each year.

Czechoslovak foreign trade increased in 1949, as compared to 1947, as follows: with the USSR - 564 percent; Poland - 533 percent; Rumania - 619 percent; Hungary - 223 percent; Bulgaria - 125 percent. Whereas in 1948, the USSR and the Peoples' Democracies contributed about 30 percent of the Czechoslovak foreign trade, they contributed 50 percent in 1950." 24/

An article in the Arbeiter Zeitung entitled "Trade with the East" Propaganda and Reality¹¹ devoted to dispelling some of the Soviet propaganda concerning Western responsibility for worsening trade relations and cites some specific examples of Soviet responsibility for the reorientation of East-West Trade.

"In the years between the two wars the Eastern States provided Austria primarily with food, with grain, cattle, meat and fats, and received in return products of Austria's industry. This picture has now changed completely, (due to Soviet policies). Hungary is a typical example of this and none other than Matyas Rakosi, the country's all powerful dictator, a prime witness. In a programmatic speech of some significance given before the Central Committee of the Communist Party (of Hungary) on the 30th of November 1951 he explained the difficulties of Hungary's food position as follows: In the course of the last four or five years our Peoples' Democracy has undergone a radical change. From an agricultural country we have become an industrial state, and the industrialization continues to progress rapidly.' Rakosi pointed out that as a result of this the number of wage earners and their standard of living had risen and the demand for bread, meat and fats had gone up as sharply in the cities as had the consumption of these items in the

country

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country villages. Rakosi then announced a change in Hungary foreign trade policy which would have the effect of reducing food exports, if not of stopping them altogether. Hungary would try to pay for its raw material requirements by exporting industrial goods. Where Hungary in the years between the wars had satisfied the greater part of Austrian bread-grain requirements, today it can deliver no wheat at all and only small quantities of rye. And under these circumstances there should be no contraction of trade.

The situation is similar in Poland, which used to be a leading exporter of pork. This is finished now. In place of the several thousands of tons of pork which Poland promised to deliver under the last trade agreement we signed with her, we received hops and barley. Thus the Austrians had to consume their Polish pork in the form of beer." 35/

The order of Soviet Bloc policy priorities, both with respect to commodities and with respect to countries, are described in numerous other documents, Soviet statements, and intelligence reports. But perhaps the most conclusive of the statements is found in a reportedly reliable intelligence report which is purported to be a secret directive issued jointly by the Czech Ministry of Trade and the Economic Commission of the Central Secretariat of the Czech Communist Party to the vice-ministers and section and department chiefs of the Ministry of Foreign Trade. The report is summarized as follows in an Embassy Praha Despatch of July 1951:

"With respect to imports this directive provided that (1) only absolute essentials are to be imported from capitalist countries and these only when adequate substitutes could not be found within the Soviet orbit; (2) in so far as possible payments are to be made through exports of non-essential goods;... With reference to exports (1) priority is to be given to the USSR and satellites; (2) no exports which can be used for defense will be permitted to be imported by capitalist countries; (3) the Peoples'

DemocraciesSECRET - SECURITY INFORMATION

Democracies are to be granted priority in rebuilding their economies; (4) exports to capitalist countries are to be limited to non-essential goods in so far as possible; (5) delivery of iron and steel products to capitalist countries are to be reduced to a minimum. 36/

This statement certainly fits well the bits of evidence built up from other sources upon the nature of the Soviet priority policy.

It is interesting to note that there are specific reports on trade agreements and trade negotiations about Soviet Bloc reductions and refusals to deliver iron and steel products to the West, which substantiates the most detailed comment of the report. 37/

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IV. SOVIET BLOC FOREIGN TRADE GOVERNED
BY STRATEGIC CONSIDERATIONS

Two misleading characterizations of Soviet trade have been most prevalent in the non-Communist world during the post-war years. First, it is frequently held that the trade policy of the USSR and its satellites does not differ substantially in practice from that of the Free World countries. This viewpoint frequently allows that Soviet trade is conducted in accordance with "commercial principles and practices" common to free enterprise traders. That is, it ignores the fact that the Soviet-type Government takes advantage of its monopoly position, or it dismisses the monopoly features by pointing out that there are monopolies operating in the Free World. In this interpretation the presence of political motives in Soviet trade policy is considered very exceptional and no more prevalent than in the trade policies of other nations.

This is a misleading interpretation, particularly in that it ignores the distinctive character of Soviet trade policy. It is true that monopoly and cartel operations occur to a certain extent in Free World trade, but for the most part, Free World trade is characterized of competitive free enterprise operations. In general, the trading policies of Free world nations are designed primarily to serve individuals or groups of individuals, and to serve an economy oriented to consumption; i.e. oriented to the general

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general welfare of the populace. The Soviet economic policy and the Soviet monopoly of foreign trade, on the other hand, exploits the advantages of the Free World market not to improve the welfare of the populace but to further its world power and aggressive aims. In recent years, of course, governmental financial policy in the West has become an increasing factor in national trade policy. Despite the development, the practices of even the most restrictive Western nations are very different from those of the state trading monopolies of the Soviet Bloc in which there is no private trading and all action is determined on the basis of strategic state interest.

As mentioned above, monopoly power under whatever motivation, confers an advantage on the monopolist over the competitive trader. The Soviet countries enjoy and exercise that advantage fully in a manner not exercised by any government of the Free World. In addition, Soviet trade policy and practices differ basically from those of Free World nations in that the Soviet use of monopoly power can be termed non-commercial in nature; that is, it serves the strategic state motives rather than private profit motives, for implicit in the term "commerce" is a large and competitive trade market of many individual buyers and sellers.

The viewpoint described at the beginning of this section is also misleading in that it fails to take account of the fact that the foreign economic policy of the USSR and its satellites is

closely

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closely interwoven with other aspects of foreign policy. This is a dominant feature of Soviet policy, despite its propaganda railings against any attempted admixture of economic and political policies. Mikoyan, former Soviet Minister of Foreign Trade, has mentioned the interrelatedness of economic and "political" policies in a speech at the 18th Congress of the Communist Party:

"In our foreign trade it is necessary to consider what kind of system of foreign trade exists in a given country and what political relations exist between the USSR and that country, because trade relations and their character and extent are directly dependent on political relations."³⁸

At the other pole of opinion it is sometimes insisted that Soviet policy in the economic field is governed solely by political or so-called non-economic motivations, to the extent that it is unpredictable, has little relationship to economic principles, and is not susceptible to economic analysis. This is an equally inadequate and misleading interpretation.

There are elements of truth in both the views cited above. However, Soviet Bloc economic policies can best be described as governed by strategic considerations. By strategic we mean considerations which pertain directly to state security and the enhancement of its relative status as an international power. Strategic considerations are directed towards a relative increase in the nation's strength or towards diminishing the strength of potential enemies. Since this war potential is a function not only

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only of military but also economic and psychological factors, strategic considerations may or may not involve economic considerations.

The foreign economic policy--and specifically the trade policy of the USSR or the satellites--is an integral part of a general economic policy which encompasses both domestic and foreign activities and developments. In turn the economic policy is a fundamental component of a carefully conceived total policy, the objectives of which include the weakening of the Free World economically, psychologically and militarily and the strengthening of the Soviet Bloc economically, psychologically and militarily. There will always be points at which the economic aspects of Soviet foreign policy overlap the military or propaganda phases and appear to be non-economic or political in character. The economic elements, though not clearly commercial in the sense of Western policy, are significant, although as pointed out above, the motivations of these economic policies are geared to a totality of so-called political policies.

In acknowledging "non-economic" motivations and the "non-commercial" nature which sometimes characterizes Soviet trade policy it must be made clear that this in no way implies that the Soviets disregard or are ignorant of economic principles. It should be obvious that the Soviet Bloc leadership has a keen familiarity with economic principles as operative in free

economies:

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economies: They not only have a knowledge of economic principles but are highly skilled in manipulating economic forces to their own ends. It is incidentally interesting and pertinent to note that a number of their leading diplomats are trained economists.

To put in another way, foreign trade for the Communist is a weapon in their total policy of economic, psychological, and military aggression for world domination. As one US observer remarked from Embassy Moscow:

"The idea that Russia thinks like a Western nation and regards mutually profitable trade between East and West as desirable and in itself is completely inconsistent with Russia's philosophy and her words and actions. Everything is subordinated to the end goal of the victory of the communism throughout the world, and her stated aim is to destroy all non-communist governments. The Party history, which is obligatory in the education of every Russian, states as its foremost conclusion that she must be revolutionary in her attitude towards the bourgeoisie and its state power. If she engages in trade it is because she has to do so in order to survive and strengthen herself for the ultimate goal. Because of the complexity of modern technology, it is not believed that the West has a clear idea of the nature and extent of Russia's dependence on the West, or of the stakes of the game that is possible to be played in connection with trade."

39

The fact that trade is a means for gaining independence from the reliance of the West (See I:II) and the fact that this weapon often necessitates severe domestic sacrifices, which the Soviet leaders are ever ready to enforce is stated by the Soviet Government in the anniversary article, "Thirty Years of Soviet Foreign Trade:"

"In

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"In carrying out socialist industrialization at the expense of internal resources the Soviet Government has striven to expand trade relations with foreign states for the purpose of importing the necessary industrial equipment in the interest of accelerating execution of the plans that have been made for industrial construction." 40

One outstanding example of this policy is found in the grain policy of the USSR. The importance which the Soviet Government attaches to grain stocks in its possession was aptly epitomized in 1947 in a statement by N. Anisimov, who was chief editor of the newspaper Socialist Agriculture:

"The strength and power of our country in the main depends on grain reserves in the hands of the Government. Grain is the strength and force of our socialist power--the might of the Soviet army. Grain is the stronghold of international authority and independence of the Soviet Union. The more grain our Government has, the greater is its strength in the international arena."

This statement was quoted in a despatch from Embassy Moscow in January, 1952 with the following pertinent commentary (paraphrased): 41/

To forecast the extent to which the Soviet Government might use its additional supplies of breadgrains for export is impossible. Russia has ranged all the way from the world's principal exporter of grains to exporting none. The domestic supply situation has not been the determining factor governing exports. The extent to which Soviet citizens were deprived of badly needed breadgrains during the first Five Year Plan in order that the ambitious program of industrialization could be financed, is well known. The Kremlin's willingness in 1946 to export grains to France while a coalition government was in power and its unwillingness to consider a 1947 agreement when the French Communist Party found itself on the outside looking in, as the Schuman Government came into power, are well remembered.

In considering

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In considering the possibilities open to the Soviet Government for use of its increased grain supplies, it must be remembered that political expediency and the use of food as a weapon could be strong factors influencing a decision.

The monopoly character of Soviet trade, together with its other features - priority systems and totalitarian objectives - draw for decreasing dependence on other areas, distinguishing it sharply from the policies and practices of its Western trading partners. It is important to recognize that Soviet policies are not only different, but that they result inevitably in a policy of discrimination vis-a-vis the Free World and a policy which is completely incompatible with the commercial principles which are espoused by these nations, including the concept of the expansion of world trade.

In a report of the Office of Intelligence Research entitled "Czechoslovak Discriminatory Trade Practices with Specific Reference to GATT Violations", this discriminatory policy is described as follows:

"Discrimination against the West is a corollary to the forced integration of the Czech economy into the Soviet orbit, and takes the form of special preferences granted to the Soviet Bloc and Czech use of various discriminating trade practices against the West." 2

One concrete result of Soviet trade policy (particularly priority planning and monopoly power) detrimental to Western traders is that the traders of the Free World cannot sell any product which does not fit into the governmental plan of Soviet requirements. As explained these requirements are not determined on the

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on the basis of "demand" within the country but by long-term governmental plans geared to strategic needs of a war economy. Given the internal policies of concentration on heavy industry and the development of military war potential, the consumption demand element, which is such an important factor in Free World trade, is scarcely considered in Soviet policy.

There is naturally a necessity for considerable flexibility in Soviet negotiating within its frame-work of priorities, but even in the realm of the so-called non-essentials, purchases are kept closely to a priority pattern identified with the most vital internal requirements of the significant sectors of the economy, usually the needs of heavy industry. Exceptions are those instances in which the Free World traders are able to enforce the sale of certain items of lesser Soviet interest as a condition for the sale of other items of higher Soviet priority concern.

The key Soviet Bloc policies governing trade with the Free World are thus drastically at variance with the commercial principles and policies which are espoused by the greater part of the nations of Free World. Even in trade in strategic items, Western and Soviet policies are developed from different stand-points. The exporting policies of the Soviet Bloc countries grant priority consideration to the Bloc with respect to all products produced domestically. The development of Soviet Bloc independence from the Western world is the prime objective. It is specific
policy

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policy that no defense materials of any kind may be shipped to the West except as obviously necessary to obtain vital items needed within the Soviet Bloc. The definition of "defense" materials is much broader than our strategic list type of definition. The repeated statements of the Poles that "Coal is their strategic commodity and they want strategic commodities in return"⁴³ is an example*. For all intents and purposes the Soviet concept of strategic goods refers to hard, durable goods in general, products of heavy industry and probably most raw materials required for heavy industry. This policy of restricting goods delivered to the West except on the basis of a clearly favorable quid pro quo is quite bluntly stated by the Deputy Chairman of the Council of Ministers of the USSR, now the guiding hand in CEMA. He stated that the USSR had no intention of assisting Western Europe to close the dollar gap by providing it with bread grains and other commodities otherwise obtainable only in the dollar area.⁴⁴ The sale of such commodities, he said, would be made only in such quantities and for such periods of time as might suit the USSR.

It is

*In April 1951 Premier Minc's address to the Sixth Plenum of the Communist Party included this statement:

One report of a specific example of the implementation of this policy came concerning the negotiations with France in which it was stated that the Poles "continue to refuse to deliver Polish coal on 'clearing account', pointing out that coal is a strategic product and can only be exported against supply of other strategic materials, for example, non-ferrous metals."

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It is true that present policies of the Western nations also restrict trade in line with security interests. However, Western strategic trade policies are, for the most part, still considered as only an aberration of a basically non-discriminatory commercial policy. Close examination will show that, even if Western policy is interpreted as directed towards the thwarting of the economic development* of its Cold War opponents and in developing its own military and economic defense, the two policies operate from entirely different premises in both theory and practice. On the one hand, the West allows all but a number of selected strategic items, to be exported to the Soviet Bloc, and leaves the needs of its own rearmament and economic development to be met for the most part through the world market, in which the Soviet Bloc State monopolies have wide access. The International Materials Conference does permit priority for certain Western countries with regard to some short supply raw materials, nevertheless there are many defense and essential raw materials for which the West and Soviet Bloc bid competitively to the disadvantage of specific Western nations. On the other hand, the objectives of the Soviet Bloc specifically require (1) that all its requirements receive priority attention before exports to the Free World are permitted, and that (2) exports to the West are to be specifically limited to non-essential goods in so far as

*Some interpretation of present Western policy would restrict its intention to the even narrower objective of restricting not the present economic (military industrial) development but the military potential of the area at some unspecified point in the future.

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so far as possible that these exports are primarily a means
(3)
to attain its own requirements; and that/the West is to be
inverted to the fullest extent possible by a policy of permitting
assistance only if necessitated by priority needs for Soviet
bloc economic developments.*

Given the Soviet discriminatory policies and objectives
in the context of the present Free World policies and objectives,
the inevitable result is that the Soviet Bloc bargaining will
be more effective and that the Bloc will be able to extract far
more than it gives in the context of the relative real economic
in-being of the two areas under present arrangements. The West
is not helpless but is not organized to meet this situation.

It must be recognized, at the outset, that the fundamental
policy of the US and other friendly nations, of promoting free
enterprise

*It has been said that the limited economic measures of
the West vis-a-vis the bloc dictated by the "limited" vulnera-
bility of the Soviet bloc. There has been much confusion in
the use of this concept of vulnerability and it should always
be pointed out that even if a nation may not be vulnerable to
the point where an embargo or restriction of its trade would
bring about the collapse of the government, it may nevertheless
be vulnerable to great strains and difficulties under the
imposition of certain external pressures. The Soviet rulers,
one can be sure, do not consider the West as much more vulnera-
ble than themselves, yet they have found great advantage in
their policies of discrimination and restriction. The explana-
tion of these entirely different policies thus lies not in the
question of relative vulnerabilities, but in the fact that the
Soviet Bloc and the West are trading under entirely different
sets of principles and objectives. See Appendix B, Para. 11.

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enterprise and a minimum of restrictions on foreign trade should be applicable only as a foreign economic policy in relation to the Free World. Two specifically different foreign economic policies are requisite in a divided world. Relationships vis-a-vis the Soviet Bloc must be developed within the concept of a clearly defined policy of economic warfare--or defense--and not merely on the basis of an ad hoc exceptions and mitigations of the Free World policy.

Our economic cold-war policy must be as positively conceived and intentionally planned as our Free World economic policy. While the objectives of the Free World policy are promotion of commercial goals, the strengthening and development of the Free World, the objectives of the economic cold-war policy must be strategy directed at weakening the Soviet Bloc economy relative to Western world and to rest from it the initiative and advantage in the trading relations. At the heart of this economic offensive must lie a coordination of Western economic policies, just as the development of international agreement and reciprocal cooperation underlies the expansion of Free World trade.

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V. COORDINATION OF ECONOMIC ACTIVITIES OF SOVIET BLOC COUNTRIES

A. The Nature of Soviet Bloc Coordination

One might assume that if the Soviet Bloc countries were coordinating their economic dealings with regard to relations with the Free World, they would find no advantage in openly making an issue of this fact. Actually much could be gained by maintaining the appearance of independent national policy in relations with the individual Western nations. This is exactly the case. It is not easy to prove that behind the individual trade negotiations and activities carried on by the USSR and its satellites there exists Soviet Bloc coordination, but if the known facts are collated and logically analyzed such a pattern of operation emerges.

The degree and the tightness of this coordination is even more difficult to measure. Coordination of trade activities can extend from the informal exchange of information ex post facto on a partial basis to the actual bargaining en bloc as a single entity. Soviet Bloc activities cannot be classified as bargaining en bloc, but they are far more coordinated than informational exchange. A study of various types of material reveals Soviet Bloc coordination along the following lines:

1. A specific coordination and clearance procedure exists in the formulation of foreign trade plans of all the Soviet Bloc countries.
2. These foreign trade plans are tied in directly with the general economic plans which are also closely coordinated.

3. The

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3. The USSR is the major directing force and the trade of each country is carefully geared in with Soviet needs, if not also directly with those of other satellites.

4. Foreign trade of the Soviet Bloc countries is conducted in accordance with a coordinated Soviet Bloc trade policy and not in accordance with diverse national policies. This policy is characterized by regulations which not only grant the USSR priority in exchanges, but also establish a broad system of priorities with regard to commodities and trading partners.

5. Although there is no trading en bloc and each satellite is allowed to negotiate with the Free World countries under general policies and directives, Moscow and/or CEMA is kept informed and in touch with these negotiations and provides general directives. Furthermore, actual clearance or approval may be required concerning some types of transactions. The satellites still appear to have considerable flexibility within the coordinated policy and programs.

6. Occasionally, at least, purchasing of strategic goods or sale of desired goods is undertaken by one member on behalf of other Bloc members, especially in instances where this strengthens the bargaining position.

7. There is "exchange" of detailed commercial intelligence with Moscow if not among the satellites.

It should

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It should be clear that in speaking of coordination within the Soviet Bloc, one cannot possibly mean the same type of coordination of policies or activities which one would witness in a free society. First, all coordination is Soviet inspired and directed and even the cooperative ventures between individual satellites such as Czechoslovakia and Poland do not have the mark of cooperation of two sovereign states, but the effect of an overshadowing Soviet pressure towards integration of the satellites with the Soviet economy.

Thus, a report from Vienna to the effect that the satellites are "separate puppets on separate strings manipulated from Moscow" ^{46/} may be quite an accurate, if incomplete, description. It is equally important to observe that these puppets are manipulated in a coordinated fashion so that they dance together to the same tune. As another report pointed out, there is obviously "a wide difference in the degree of assimilation of the various satellites" into the Soviet Bloc. ^{47/} Consequently there is probably a wide difference in the nature and extent of direct and indirect controls in all areas - economic, military, etc.

Secondly, the type of coordination is different by virtue of the centrally controlled nature of the Soviet Bloc economies. General coordination of satellite policies is accomplished, with relative ease, in the development or review of the general economic and trade plans. In so far as the details of these plans are coordinated, the need for direct Soviet guidance or coordination in the more obvious specific areas of operational activity is diminished.

The USSR

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The USSR and satellites should be considered as a coordinated unit in their dealings with the Free World, without implying either a system of voluntary coordinated effort of sovereign nations or that every detail of operation is subject to some sort of multilateral agreement or clearance which would characterize such coordinated effort in the Free World. As a consequence, the evidence of coordination rests principally in the nature of the centrally controlled economies and the coordination of the economic and trade plans rather than upon reports of cases of overt consultation on specific deals, even though a certain amount of such activity is discernible.

The significant fact is that the effect is one of coordinated Bloc action, although the means of achieving that effect may be quite alien to Free World processes of coordination.

It is most difficult to determine exactly how far this integration of the Soviet Bloc has proceeded in the realm of foreign trade. Soviet Bloc activity can certainly be described as coordinated in the terms mentioned above, but in addition there are some indications of a trend in the direction of centralized purchasing and selling. It is not possible, nor necessary for our purposes, to determine the exact extent to which the Soviet Bloc is moving toward total economic integration. It is certain that the Soviets have the power to bring this type of operation into being as it proves advantageous, and it is the potential power which would thus accrue to the Bloc which is even more significant than its present status. Already, occasionally at least, the purchasing of strategic goods or the sale of desired goods is undertaken by one member of

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The

the Bloc on behalf of other members, especially in instances in which this type of operation strengthens the bargaining position. A Bonn despatch cites the gradual and systematic subordination of the economies of East Germany and other satellites over the past four years to the Soviet control:

"Thus, Hungary would be ordered to supply grain for Czechoslovakia to negotiate with, and Poland would have to supply sugar for the D.D.R. barter transactions, etc., and it was felt that one day the D.D.R. would assume the role of broker for the disposal of the surpluses of these countries in the West and for procurement of essential satellite needs from the West. This is now taking place, has, in fact, taken place, and Chinese products e.g., pigs' bristles, wood oil (1,500 tons), dried eggs (950 tons) to the value of millions of D' are being offered by the D.D.R. to the West, while last year ground nuts from Manchukuo and pigs' bristles from China were supplied by Hungary to reduce her deficit with the Federal Republic." 48/

3. Te

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B. The Council of Mutual Economic Assistance -
Organ for Coordination

Before presenting the evidences of Soviet Bloc economic coordination it may be well to review the establishment of the organization in which this coordination is formally centered - the Council of Mutual Economic Assistance (CEMA).

Various reports indicate that at a meeting held in Sochi in September 1948 a coordinated economic plan drawn up in Moscow was presented to the satellites. This apparently constituted a preliminary to the official establishment of CEMA.

On January 25, 1949, Moscow reported that representatives of the USSR and the European satellites,* with the exception of East Germany, had held a conference in Moscow at which a Council of Economic Mutual Assistance (CEMA) was created "for the purpose of assuring broader economic collaboration among the participating countries. ^{49/} The declared objectives of CEMA are "to exchange economic information, mutual aid as regards information and raw materials, foodstuffs, machinery, industrial tools, etc."

The implication that CEMA constitutes an Eastern European "Marshall Plan", or a bona fide international economic agency of independent states, or that it was a defensive response to Western export controls is merely Soviet inspired propaganda to shadow the real purpose of the organization as a mechanism of Soviet enforced integration of the Eastern European economies. As one source commented, the CEMA is a "name for a bureaucratic process by which Russia is developing an iron control over

* Poland, Czechoslovakia, Hungary, Rumania, Bulgaria.

satellite

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satellite economies. There is little question of mutuality." 50/

In a Sofia daily newspaper (Rabotnichesko Delo, February 3, 1951) the CEVA is frankly termed an agency to handle the resources of the satellites:

"As a result of the development of economic ties between the USSR and the People's Democracies, it was necessary to create a separate organization, which would handle the resources of these countries, with the object of utilizing them fully and in the best interest of the socialist camp. Such an organization was created in January 1949, in the form of a CEVA. (Council for Economic Mutual Assistance.)" 51/

C. Evidence

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C. Evidence of Soviet Bloc Coordination

There are three major areas of information in which the Soviet Bloc pattern of economic coordination can be discerned: (1) through the announcements made by the Soviet Bloc countries concerning the operations of CEPA and the coordination of the economic plans of the Bloc; (2) through the collation of numerous intelligence reports on meetings and other Communist activities which reveal the pattern of Soviet Bloc economic coordination and specifically the reports of various reliable, well-informed, Soviet Bloc defectors, whose pronouncements tend to collaborate and amplify this information and each other's statements; and (3) through the notation and collation of reliably reported isolated instances in trade dealings with the Free World countries in which coordination becomes apparent.

1. Evidence: Soviet Bloc Statements on Coordination

"The monopoly of foreign trade in each one of the countries of the peoples' democracy is a means for the planned coordination of its economy with the economy of all countries of the socialist camp". This is an official statement concerning the coordination of the Soviet Bloc economies contained in a Soviet journal, Probleme Ekonomike ^{52/} (Problems of Economics). The extensive coordination of the production, economic development, and total economy of the Soviet Bloc countries is explicit in the governmental announcements dealing with CEPA and those reporting on the various economic plans of the USSR and its satellites.

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a) USSR

- (a) USSR - The Soviet periodical Red Fleet, two months prior to the announcement of CEPA, "Economic Cooperation between Countries of Popular Democracy":

"It is well known that the countries of popular democracy are reviving, rebuilding and developing their economy according to a single national economic plan...It is natural that the first (plans)...could not embrace all the problems of economic cooperation and plan in detail the coordination of economic activity between neighboring democratic states. Nevertheless, these questions were then raised. It is already two or three years since the popular democratic governments set up their various forms of mutual economic aid,...As regards the coordination of economic development, the countries of popular democracy are even more closely tying their interests to the whole area in which they are situated. Today already the plans of Poland and Czechoslovakia complement each other...paper and cement industries (in Rumania and Bulgaria) will be developed according to a single coordinated plan." 53/

- (b) Hungary - Radio Budapest, January 30, 1951, stated:

"The CEPA is an instrument to detail the economic plans of the Soviet Union and the People's Democracies..." 54/

- (c) East Germany - The East German Home Service Radio Broadcast, monitored October 3, 1950, reported:

"The admission of the GDR into CEPA has opened to the German people a prospect of unlimited opportunities for economic collaboration, integrated planning, foreign trade, and the exchange of scientific and technical information with one-fourth of the earth." 55/

- (d) Rumania - Probleme Economice, a quarterly periodical published in Bucharest, reported as follows in 1949:

"The countries participating in the CEPA propose to extend the economic collaboration within the Council by reciprocal investments, especially for the development of heavy industry and the best possible preservation of natural resources, in addition to long term trade agreements and scientific and technical assistance...Cooperation under CEPA will help the planning of every participating nation. The economies of the peoples' democracies and the Soviet Union differ in structure; the collaboration effected by the Council actually makes the economies complementary.

The shortcomings in the economies of the respective countries will be examined and corrected under this broad planned, economic collaboration, of CEPA". 56/

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(e) Hungary

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(e) Hungary - From a Hungarian language publication, 1949:

"Cooperation agreements are being concluded with the neighboring states. These agreements define what items should be produced by Hungary, Czechoslovakia, or Poland. They are to gear the production of each of the participating countries to certain groups of products, thus making it possible to produce these products in larger quantities and more economically." 57/

(f) East-Germany - The Neue Züricher Zeitung reported that the Deputy Minister of East Germany announced at a Berlin press conference that the Soviet-German Democratic Republic trade agreement had been concluded for 1950-1955 and that it "does not merely list the goods produced and offered for export by the two trade partners, but basic consideration is given to the requirements of the two countries and to the coordination of their production." 58/

The coordination of Soviet Bloc economic activities is not confined to internal economic problems but naturally also covers foreign trade activities since these trade activities are so carefully integrated with the total central economic control. Coordination of foreign trade activities is implicit in other government statements, as well as explicit in the intelligence reports and the statements of defectors quoted in the ensuing portions of this paper. The official statement on trade policy in the Soviet Encyclopedia (Kratskaya Sovetskaya Entsiklopedia, 1943) clearly points out the fact that economic plans for the economy and foreign trade plans are inseparable:

"The foreign trade of the Soviet Union must be seen as an unalterable part of the planned economy of the country, and is founded upon the basis of the foreign trade monopoly." 59/

In August 1950, an article in the Polish newspaper Rzeczpospolita makes the point equally clear in discussing the "linking of the Polish economy to the economy of the USSR and the Peoples' Democratic countries":

"...discipline

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...discipline in foreign trade is essential... to accomplish-
ment of the six-year plan... and... great efforts by all
branches of foreign trade will contribute to overcoming
difficulties and implement our foreign trade plans and will
link our economy to the planned economy of the USSR and the
Peoples' Democratic countries." 60/

Deputy Premier Rau of East Germany in a speech in February, 1952,
referred to the interrelationship of the general economic and trade
plans and economic coordination.

"The fact that these (CEPA relations) are permanent and
actually expanding economic relations naturally leads to
the economies of these countries being coordinated through
their foreign trade. Their reconstruction plans, too, are
vitally determined by their foreign trade." 61/

He goes on to discuss how the trade agreements are prompted by the
interest in mutual promotion of rapid industrialization.

Two implicit references to the jurisdiction of CEPA in the field of
foreign trade are found in the purported text of the CEPA agreement. These
statements clearly imply that CEPA has jurisdiction, under certain circum-
stances, over not only the national economic planning but the foreign
trade of the member nations.

"(1)... One of the purposes of organization has reference
to the function to 'assure sale of products of member
countries'."

"(2) Article 6 provides that the present protocol does not
'exclude, annul, or alter commercial agreements already
signed by the member countries provided communication to
the Secretary General'." 62/

2. Evidence

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2. Evidence: Reports of Defectors and other Intelligence Reports.

Intelligence reports from reliable sources concerning CEMA and its activities amplify the official statements, such as those cited above, and indicate that considerable coordination is planned and being carried out in the general economic field and in foreign trade relations. The statements of various well-informed defectors from the Soviet Bloc are particularly useful. In general their statements dovetail with the information received from other sources. A number of statements from these various sources are quoted below with relation to the following topics:

- (a) Purported Text of the CEMA Agreements.
- (b) Centralized Control and Coordination of Soviet Economies.
- (c) Exchange of Information.
- (d) Coordination in Trade as well as General Economic Planning.
- (e) Coordination in Financial Operations.

(a) The Purported Text of the CEMA Agreement.

The most detailed and comprehensive document on this subject is the purported text of the agreement establishing the Council of Mutual Economic Assistance (CEMA). The document has been forwarded to the Department through various intelligence channels. ^{63/} It closely parallels the Communist press announcements, but stipulates objectives and activities of the organization in greater detail. Among the purposes of the organization it cites: coordination of the Soviet Bloc economies within a general economic plan, the standardization of industrial products, and the "assurance of sale of products" of member countries. Excerpts from the text follow:

"Article 2

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The purposes of this organization are:

- A. To coordinate the economies of the signatory countries within the general economic plan developed by the council.
- B. To supervise consolidation and development in each country of industries and resources of each of respective countries in such a manner that industries of all signatory countries will not longer be competitive but will not longer be competitive but will compose a homogeneous whole, complementing one another.
- C. To aid in economic reconstruction of each country individually, bearing in mind for this purpose possibilities of providing each country with raw materials.
- D. To increase capacity of each country for production of raw, processed or semi-processed materials by establishment of mixed companies or association on basis of exploration and exploitation of surface and sub-oil resources.
- E. To arrange for the exchange of experiences.
- F. To standardize and increase quantity as quality of industrial products of the signatory countries.
- G. To assure sale of products of member countries.
- H. To accord assistance by loans or arranging investments for purposes of strengthening the economy of each signatory country.

"Article 3.

A permanent Secretariat General will be created with seat in Moscow.

"Article 5.

Beginning with the year 1950 economic plans* of all member countries will be drawn up in conformity with advice of Council, but for present year each signatory country will endeavor to adapt its own economic plan to provisions of present protocol and advice of Secretary General insofar as any investment of funds in execution of predetermined parts of economic plans of each member country has not taken place up to signing of present protocol.

* Announcements have been made of signatures of such agreements for five-year periods to 1955 by Czechoslovakia (November 1950) and East Germany (October 1951).

"Article 6

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"Article 6

Present protocol neither excludes, annuls nor alters in any way commercial agreements already signed by any parties to this agreement and which are communicated to Secretary General within period of 30 days."

(b) Centralized Control and Coordination of Soviet Economies

The centralized control of the Soviet economies is mentioned by innumerable sources. Some typical reports follow.

A report from Embassy, Warsaw, states that Lychowski, one-time member of the Polish delegation to the CE, admitted that CEPA was created for the major objective of achieving "rationalization in industrialization" and in order to achieve centralization of economic planning in the area. 64/
The Senior Vice-Minister of Polish Industry is reported similarly to have emphasized the "over-all planning aspect of CEPA". 65/

An intelligence report of May 1952 quotes a Swiss publication which presents information on the tight control which CEPA exercises over the national economies. The information was reportedly obtained from sources behind the Iron Curtain:

"The Council of CEPA (Council of Economic Mutual Assistance) in Moscow employs two thousand specialists, of whom 70 percent are Russians. All East Bloc countries have to submit monthly inventories of their raw materials, production, etc., to this central office and may no longer change their plans without its permission. After 1955 there will be only one single economic plan for the entire East Bloc." 66/

25X1C5b

25X1C5b

[REDACTED]
[REDACTED] describes the centralized control exerted by the USSR in more general but similar terms:

"The State economic plans are prepared in Bulgaria and sent to the USSR where the Soviet Government modifies them according to Soviet needs and desires. The plans as returned to Bulgaria are unrealistic and impossible to fulfill. But no one in the Bulgarian Government dares to voice any objections for fear of being called a saboteur." 67/

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(c) Collection

The coordination of trade policy must naturally be based upon the exchange of information. The purported text of the CEPA made specific provision for this and various intelligence refers to it specifically.

A report from a well-placed source in London states that:

"In accordance with the general trend of current economic policy within the Soviet Bloc, there is now a regular exchange of information among the planning ministries of Soviet Bloc countries. The sole exception is the USSR itself which releases no figures of planned and actual production or imports. From all other members (of the CEPA) the DDP receives monthly reports on imports and production as well as details of planned production and imports (both short and long term), current bottlenecks and other difficulties encountered, and a certain amount of information on technical and scientific development." 68/

(d) Coordination in Trade as well as General Economic Planning

While it has been generally recognized that the CEPA was intended to effect coordination of the Soviet Bloc economies, there has been some question as to whether this coordination was supposed to extend into trade activities of the satellites. The purported text cited above clearly provides for activity of CEPA in the trade field. Innumerable other reports make clear that the USSR, mainly through the mechanism of CEPA, is affecting an increasing coordination of the trade policies and activities of the Soviet Bloc countries.

The various defectors have frequently pointed out that a coordination of trade policies exists, even when they do not always agree on the degree and extent of the coordination. The information available

from

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from these defectors is probably the most valuable of intelligence data, although it is subject to severe limitations, due to Soviet policy of restricting and compartmentalizing the knowledge and activities of even its most trusted, high level Communists. Because of this policy even those who were employed in relatively high-level positions in the Ministries of Foreign Trade cannot describe the entire foreign trade policy and operations of their country. Only a very few Communists are permitted to be acquainted with more than a small segment of the field in which they work. This policy, incidentally, is consistently applied to the bureaucracy in the USSR as well as in the satellite governments.

Despite these limitations, the defectors from the three major satellite governments (Czechoslovakia, Poland, and East Germany) have provided considerable detail and, most important, the information seems to be mutually consistent in terms of general comment and in those areas in which the respective defectors are most competent to speak.

25X1C5b

25X1C

states specifically that the Council of Mutual Aid has a coordinating role with regard to the foreign trade of the Soviet Bloc countries:

"...all foreign trade plans are worked out in CEMA, in Moscow, from where they are handed to the Czech State Planning Office which in turn breaks it down and passes it on to the various ministries whose job it is to further distribute it to the various factories or foreign trade monopolies. A counter plan is also made which is based on the submissions

of the

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of the individual plans and the foreign trade monopolies, and the coordination of this counter plan with the one handed down from the CEPA is at the level of the ministries and the State Planning Office. This procedure conflicts slightly with previous notions of the relationship of the State Planning Offices and the CEPA according to which it was believed that it is the State Planning Offices which worked out the details of the foreign trade plans and submitted them to the CEPA for coordination and approval. In practice there may not be such a conflict between the two procedures since it is likely that the CEPA gives instruction along broad lines to the State Planning Offices and the plans submitted by the State Planning Offices undergo several revisions and are in effect constantly amended in the course of the coordinating and revising function of the CEPA." 69/

A description of the duties of the Czech delegate to the CEPA

25X1C

[REDACTED] explicitly states that concern in CEPA is with East-West trade among other things:

"...the Chief of the Czech delegation (to CEPA) actually has the final word on all important decisions of the (Czech) Ministry of Foreign Trade; those concerning trade with the East as well as trade with the West...in the party hierarchy he also outranks the Minister of Foreign Trade." 70/

25X1C

[REDACTED] placed great emphasis on the fact that the center of economic activities of all Eastern European countries is now located in CEPA and in Moscow. He considers "this to be development the importance of which has been sorely underrated by Western commentators". He goes on to point out that "not only the extent of trade with the USSR, but the harmonization of trade relations between the various satellite states depends entirely upon decisions made in Moscow (the seat of CEPA)... It decides what items should be imported into Czechoslovakia either from the East or from the West; all prospective acquisitions are classified according to an economic priority coefficient". 71/

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The high

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The high level Soviet direction is repeatedly mentioned. Another defector reported similarly. Although he was also in the Ministry of Foreign Trade, he had little opportunity for direct contact with the work of CEPA and admitted that he did not know very much of its operation. Nevertheless, he could state that it was generally known that the permanent Secretariat was guided from Moscow by Mikoyan, the ex-Foreign Trade Minister of the USSR, now Soviet Vice-Prime Minister. 72/

25X1A

Numerous other reports make clear that the CEPA engaged in coordination of trade as well as general economic planning. [REDACTED]

25X1A

[REDACTED]
at a conference of the heads of the Policy Planning Department of the East German Government mention of the CEPA brought out the fact that the basic preparatory planning for the economy of the orbit countries as a whole was among the purposes of the CEPA. In addition, the CEPA was said to be responsible for "relieving the bottlenecks in individual member countries by arranging the transfer of production", as required from one to another. In the cases in which the resources of the orbit countries as a whole were considerably inadequate, "member countries were permitted to relieve their own bottlenecks by imports from non-member countries". 73/

25X1C

25X1C

Still another intelligence report [REDACTED]
[REDACTED] comments upon the close supervision of CEPA:

"While the government controlled export-import agencies in Prague and Budapest are free to negotiate compensation agreements with countries in Western Europe on behalf of their respective governments, all such

agreements

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agreements have to be submitted in detail for approval to a Russian controlled central office. Such details are usually referred by telegraph to this office, and special lines are kept open permanently for the purpose. Agreement or otherwise is generally received within a very short time. 74/

The source cites two instances in connection with negotiations for agreements with the Netherlands.

The coordination of raw material purchases is reportedly a subject of discussion at a COMA meeting held in Moscow in June 1951, according to an article in a Swiss paper, Finanz und Wirtschaft (September 21, 1951):

"The agenda of the meeting contained the question of the provisioning of the Eastern Bloc countries and special attention was paid to the coordination of increased purchases of vital raw materials in the Far East." 75/

25X1X

[REDACTED] reported a specific example of coordination of purchases. He stated in substance that:

In view of the present stalemate in the trade agreement between East and West Germany, arrangements are being made to include East Germany requirements in Polish and Czech imports from West Germany under Polish and Czech trade agreements with Bonn. The latest agreements, in fact, are believed to contain some items which are destined for the DDR. 76/

One available report describes the development of Polish-Czechoslovak economic relations since 1947 on the basis of information obtained from three former officials of the Polish and Czech Ministries of Foreign Trade. Interesting information about the details of satellite coordination are revealed.

The joint commission for Polish-Czechoslovak co-operation in trade with foreign (non-Soviet bloc) markets is one of the most important joint economic institutions.


The Polish

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"The Polish-Czechoslovak Committee for Cooperation on Foreign Markets is supposed to exchange information and experience gained in trading with the West, to avoid export competition by agreeing on prices and conditions of payment, and to coordinate imports in order not to bid up import prices. Commodities involved in mutual import cooperation include raw hides, crude rubber, and copra. Export co-operation covers such products as textiles, especially linens, sugar, glass, china, and furniture.

The technique of cooperation involves the geographical division of export markets for various items, coordination of export prices and shipping conditions, common purchase of raw materials, consultations among Polish and Czechoslovak economic counselors abroad, conferences among directors of export-import monopoly companies, etc. " 77/

25X1C


has also provided considerable detail on the operational organizations of the CEPA, which shows that its direction in foreign trade matters is both comprehensive and specific. He reports that the Foreign Trade Commissions of the CEPA include a Committee on Commodity Exchange (which prepares commodity lists for respective bilateral trade agreements); Committee for Cooperation on Foreign Markets; Committee for Prices; Committee for the Exchange of Trade Agreements (mutual information); and Committee for the Coordination of Trade Policies. In addition, there are the following Committees under the Finance Commission: Committee for Mutual Financing; Committee for Coordination of Financial Agreements with Foreign Countries; and Committee for Bilateral Currency Problems. 78/

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a. Coordination in Financial Operations

There has been much speculation on the nature of the financial coordination among the Soviet Bloc countries. Even less information is available on the coordination of financial dealings than is the case with regard to coordination of commodity exchanges. Financial dealings, however, are so closely related with commodity trade that it is reasonable to expect that progress in the realm of trade coordination must be accompanied by approximately parallel measures in the field of finance.

discusses the financial arrangements being

developed in connection with that organization. It describes a relatively highly centralized mechanism with particular reference to the keeping of accounts and coordinating of credits ostensibly granted under CEMA, as well as the arrangements under the bilateral agreements:

"The general mechanism is that transfers, whether of rubles or of national currencies, are made between the satellite national banks and the Gosbank in Moscow. The latter keeps special CEMA accounts in the different currencies. In effect, this creates a ruble bloc, the credit basis for which is controlled by the Directorate of Foreign Operations in the Gosbank. As far as is known from good sources, direct foreign exchange transfers between the satellites are now forbidden.

This represents, in effect, the creation of administrative machinery which can be used to reduce the national currencies of the satellites to roughly the present status of Scottish bank notes, and eventually bring about the complete integration of the economies of the satellites.

Albania has been allowed to do the rounds of the other satellites to raise credits, notably from Poland, Czechoslovakia and Hungary. These negotiations have, however, been closely controlled by the Secretariat." *B*

This

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This description of the clearing mechanism indicates the existence of a "ruble bloc" for internal clearing arrangements. The advantages of such a system were described in January 1949, in an article in Soviet Affairs, an intelligence publication of the Office of Intelligence Research, entitled "Closer Financial Ties Between USSR and Orbit Seen as Possibility":

"The present rigid system of bilateral trade and payments agreements within the Soviet sphere could be given some aspects of multilateral flexibility by the creation of a set of clearing books, say, at the State Bank (Gosbank) in Moscow, on which credits could be transferred in settlement of balances arising out of trade and other economic relations between Eastern European countries. This would imply the willingness of satellite countries to accumulate such credits up to certain specified amount, i.e. to extend a corresponding short term credit to the area as a whole. Initially, the credits (i.e. working reserves) could be established by the satellites by prior delivery of commodities to the USSR or by the extension of book credit for that purpose by the Gosbank. Furthermore, the USSR might assume the role of short-term international banker, for the area by extending limited overdraft facilities, and conversely, arranging for the utilization (or funding) of unduly large credit balances...

A number of advantages would accrue to the USSR in the event of the establishment of a system of ruble clearing (or a similar system based on like principles). Economically, the Soviet Union would be able to free its trade with the orbit from strict bilateralism and to conduct it on a more national multilateral basis. This advantage has been implicitly acknowledged by the creation of the triangular clearing system between the USSR, Poland, and Czechoslovakia referred to above. In addition, if the initial balances were established by prior delivery of commodities from the satellites to the USSR, and if the former were required to maintain minimum credit balances, they would in effect finance the establishment of the whole ruble clearing system, with the USSR as the beneficiary...

Given the economic orientation of the satellite countries toward each other and toward the USSR, a clearing system would be of service to them in introducing greater flexibility into intra-Eastern European trade." 89

In essence,

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In essence, such a clearing system would represent an arrangement among the Soviet Bloc countries which would not necessarily modify directly the economic relationships with Free World nations. If such an arrangement for clearing were extended to form an actual foreign exchange pool, administered by Gosbank or its agencies, a mechanism would be established whereby the satellites would turn over foreign exchange earnings to the Gosbank which would credit them with ruble balances. About this type of system the article in Soviet Affairs stated:

"In principle, the system...would be quite similar to the present sterling area arrangements with its dollar pool. Initial ruble credit balances would be established by the satellites by surrendering their present foreign exchange reserves to the Gosbank, as well as by prior commodity deliveries to the USSR. The USSR would exercise a banking function by financing occasional foreign exchange shortages in the pool as a whole from its large gold reserves or it could sell gold to the pool in exchange for ruble credit balances (which could then be transferred in settlement of obligations to one or more satellite countries)".

The article defined this type of system as a ruble bloc - that is, a foreign exchange pool coupled with a clearing system. Commenting upon the advantages of this form of financial coordination the article continues:

"From the Soviet point of view the advantages would definitely exceed those of a mere clearing system. By forcing the satellites to surrender their reserves and current earnings of foreign exchange, the ruble bloc would make it difficult for an individual satellite to break away without the bloc's, i.e. the USSR's consent. The satellite would not only lose the value of its ruble credit balances in the clearing system, but it would also have to build up anew a foreign exchange reserve for trade with the West.

More significantly, by allotting foreign exchange quotas from the pool to its satellites, the USSR would be able to exercise direct control over their trade with the rest of the world. For example, sterling earned by Finland might be re-allotted through

the pool

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the pool mechanism to Bulgaria, if the USSR were to consider the import of equipment by Bulgaria of greater importance to the area than the imports of, for instance, cotton by Finland. In other words, the device of withholding or granting foreign exchange allocation could be used by the Soviet Union as a means of implementing broad political and economic goals for the satellites, as well as for overcoming reluctance. The USSR need not necessarily be a net beneficiary in the sense of being a net drawer of foreign exchange from the pool, nor would this consideration alone be likely to prompt the creation of a ruble bloc."

There have been other scattered indications that either a clearing system or exchange pool is currently in operation. [REDACTED]

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[REDACTED] in March 1951 reported:

"Whenever something is sold by one of the Soviet trade delegations abroad the payment accreditive may never be issued to the delegate through a local bank, all accreditives must be made out directly to the state bank in Moscow". 81/

An unconfirmed report concerning the control of the Gosplan, the State Planning Commission of USSR, had also been received from Paris early in January 1949. That report indicated that a trustworthy source at that time stated that the Comintern circles in Paris were saying that the Kremlin intended to place all matters pertaining to overall commercial and economic relations with the Soviet satellite states under the direct control of the Gosplan and that the creation of the Council of Mutual Economic Assistance was a first step in that direction. 82/

f. Trade Coordination in Pricing

In some instances trade coordination apparently extends into pricing policies and setting of specific prices for commodities in East-West trade. Pricing policies of Soviet Bloc countries are discussed in Part II, Section II, but a couple examples of coordination are cited here:

It was

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It was reported that "at a recent session of CEMA held in Warsaw (September 6-7, 1951) the Soviet Bloc nations agreed on a selling price for sugar of \$167 a ton for sales to the Western world." 83

A more explicit report of coordination of prices are found in a March 1951 report concerning a meeting of the chairman of State Planning Committee of the DDR, at which the principal subject under discussion was the new export drive for the Middle East and Far East markets.

It was said that "the impending tripartite agreement between East Germany, Poland and Czechoslovakia would produce a powerful economic bloc which would be able to compete actively with British and American exporters in Far East and Middle East markets." It was decided that "exports will be made if necessary at dumping prices, the reduction of export prices being achieved at the expense of the home market..." It was noted that "Poland and Czechoslovakia were expected to adopt similar measures." 84

The operations of a Soviet Bloc state trading corporation, particularly with regard to price determination, are interestingly described in an intelligence report received [REDACTED]

[REDACTED] The report describes the operational activities of the Hungarian State Trading concern, CHEMOLIMPEX, and also concludes that the mechanism includes coordination. This corporation is considered typical of many other state trading agencies. The corporation buys and sells chemical raw materials and products, metal compounds, pharmaceutical materials, etc. The report shows that the Soviet Bloc purchasing operations are based upon rather comprehensive studying of the world market prices and upon a policy which is geared to overall strategic-commercial advantage. The report contains the comment that "this system evidently calls for liaison between state trading companies and between the different states of the Soviet Bloc. The details are not available on the subject". The detailed operations are described as follows:

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"Faced with the necessity of buying a product abroad, CHEMOLIMPEX employs a system practiced in every state trading agency throughout the Soviet Bloc. This consists of (a) Cabling, writing, or telephoning the commercial attaches, or official or unofficial trade representatives, agencies, etc., or direct to the company producing the product - in all countries which normally dispose of this product and can sell it to Hungary according to current commercial records... (c) Once a week, a conference is held by department heads of CHEMOLIMPEX and such offers are scrutinized... (d) More important than this, however, is the documentation compiled from previous correspondence with agents in all countries, and from commercial attaches' reports. This shows the current prices in these different countries of the products that Hungary wishes to sell. (e) From this intelligence, the conference decides which offer it has received will result in the maximum price being paid from the minimum counterpart sale. If, for example, Hungary wishes to buy saltpeter, the trading concern involved does not accept Chile's saltpeter because it is a penny cheaper than Paraguay's, but studies the trading possibilities of both countries, and, finding it can sell Paraguay superphosphates at twice the price that Chile will pay, according to the current prices, accepts the Paraguayan offer. In this way, Hungary works through bar commercial agreements, giving priority to deals which mean selling expensively, or buying cheaply not in terms of actual prices, but in terms of ultimate clearings between Hungary and the country concerned. This system is equally applicable where Hungary wishes to sell, and the examination of the world market for a counterpart purchase comes after." 85/

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3. Evidence: Specific Trade Deals

As it was pointed out above the evidence of Soviet Bloc coordination in the field of trade is found primarily in the very nature of the centrally controlled economies and the announced coordination of their general economic and trade plans. This is the channel and means of coordination. Since the coordination is achieved primarily at the policy planning level, there is obviously little need for overt coordination and consultation on specific deals, especially while the general Soviet policy is to maintain the fiction that the satellites are sovereign entities. Nevertheless, there occasionally appears in the specific trade and financial relations with the West some reflection of the coordination discussed above. A few of these examples are cited below:

(1) Hungarian-Czech Coordination on Grain Deliveries

In trade negotiations between Western Germany and Hungary, a tentative agreement was reached for the delivery to the West of a certain quantity of grain, this satellite being a traditional grain exporter. A few days later, evidently after conversations with Moscow, the Hungarian delegate stated that his country could not make any grain available. But, at the same time, a Western negotiator was told by a satellite negotiator that there was no reason for concern; it was hinted that the Western needs would be met. A short time later, in negotiations with Czechoslovakia, the Western delegates were unexpectedly offered approximately the same amount of grain. Czechoslovakia, a traditional grain importer, was an unusual source, but apparently stood in greater need of Western goods and was considered by Moscow to be in a better bargaining position vis-a-vis Western Germany. Moscow had apparently "coordinated" the economic relations and needs of the satellites. 81/

(2) Report

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(2) Report of Soviet Bloc Financial Pool in Switzerland

All Swiss Bank deposits and financial holdings of the Peoples' Democracies and the Soviet Union, which have resulted from their foreign trade, are reported to be commonly administered since January (1950) according to a usually well-informed intelligence source. An American intelligence officer was given opportunity to copy this information from what was believed to have been an exact copy of the Bucharest-emanated confidential "Cominform Bulletin". These pooled funds are said to be used "in accordance with one plan". Moscow is said to be the seat of a so-called mixed commission in charge of this committee. Accounts in Swiss banks accruing from the commercial transactions abroad of the USIA combine are also said to be part of the pool. 82/

(3) Moscow Role in Swiss-Czech Trade

The Swiss Foreign Office reported that the Czechs have been authorized by the Kremlin to promise the Swiss vital raw materials if Switzerland would deliver machinery. Since the Czechs requested that negotiations should take place in Moscow, the Swiss refused to negotiate, stating they could not accept conditions that were patently political. 83/

(4) Collaboration in Glassware Exports

Embassy Budapest reports that there is evidence that economic cooperation between Czechoslovakia and Hungary is well advanced. One piece of evidence which had been submitted concerns sale of Czech and Hungarian glassware.

In November, 1951, an American citizen of a large United States glassware importing firm told the Budapest Legation that he had come to Europe to buy stemware at the suggestion of the Czechs, but that later the Czechs indicated they could not supply the firm and suggested that the Hungarian glassware monopoly, FERUNION, might supply them. The U.S. representative did not approach the Hungarian firm, but two months later, in January, FERUNION wrote to the U.S. firm offering specific items and a list obviously obtained from the Czechs. In April, U.S. firm representatives discussed the matter with the Czechs in Prague, and the Czechs again referred them to the Hungarian firm, FERUNION, and even offered to assume full responsibility and to accept payment on behalf of FERUNION. 84/

(5) Polish

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(5) Polish Purchases for China

Embassy Ceylon repeats a report that Chinese Government orders for rubber are now being handled through Poland and that the orders which are being placed on the Ceylon market directly by Chinese interests are only quantities which private importers are permitted to bargain. 85/

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PART II

TACTICS (PATTERN OF OPERATIONS)
OF SOVIET BLOC TRADING

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PART II

TACTICS (PATTERN OF OPERATIONS) OF SOVIET BLOC TRADING

While strategy pertains to fundamental policy and the nature of policy and its objectives, tactics are the operations or operational patterns through which strategy is pursued. The tactics may vary markedly and even appear self-contradictory at times, but they are perceived as consistent in relation to the over-all strategy and ultimate goal.

The operational pattern of Soviet Bloc trading does not always appear, on the surface, to be unlike that of Free World countries. The Bloc, quite frequently, uses normal commercial channels, carries on its trade through the traditional mechanism of bilateral trade and payments agreements, as do other European countries, and conducts its negotiations in terms of world prices and supply and demand considerations. * This appearance of "normal" commercial operations, however, is deceptive and misleading, though not unintentional. Soviet trade is designed to obtain for the Bloc the greatest strategic advantage in any given situation. Primary importance, however, is focused upon long-run and over-all foreign policy objectives. Individual trade agreements negotiated by different Bloc countries with different Free World countries, though appearing separate and distinct, are related to essential Bloc requirements and total strategic planning. Considered in this light, the "success or failure" of any one operation can be measured only in relation to total objectives.

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*See Appendix C - Mechanisms of East-West Trade.

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In addition to the use of "normal" commercial relations to serve broader objectives, the Soviet Bloc does not hesitate to employ measures of an extra-legal or clearly "illegal" nature, whenever necessary to achieve its desired ends. The tactics employed, as will be demonstrated, are frequently plainly without the pale of accepted commercial practices and justify their being termed "symptomatic" of economic warfare.

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I. MAXIMIZING TERMS OF TRADE AND THE QUID PRO QUO PRINCIPLE

A. Insistence on Strategic Tie-In

One of the methods by which the Soviet monopolies maximize their terms of trade advantage is to tie the sales of goods desired by the West directly to commitments for Western export of strategic goods. This application of a strict quid pro quo principle is basic to Soviet bargaining. The Soviet Bloc uses the bargaining power afforded by its exports in every way possible to maximize its advantage and extract the goods it desires from the West at the lowest "strategic cost".

The use of coal as a major Soviet bargaining weapon was frankly admitted by the Polish Premier, who said "Coal is our strategic commodity ... and we want strategic commodities in return." 1/ An even more precise application of the Soviet concept of quid pro quo principle is found in the statement of Polish negotiations to the effect that they would refuse to conclude commercial coal contracts with ball bearing producing countries, unless the agreements provided for the delivery of "embargo-type bearings." 2/ Similarly in the Economic Commission for Europe (ECE) the Poles offered coal, provided copper and aluminum were offered in exchange. 3/

When the Soviet Bloc discovers a Western requirement which it can meet with coal, sugar, timber, etc. it exploits this demand to extract the fullest commitments in strategic goods. It is essential to recognize the nature of the Soviet bargaining and not merely conceive of it as "hard bargaining of astute commercial traders". The Soviet monopolies are not
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only hard bargainers in that sense - in obtaining most advantageous prices etc. - but their objective is not only the best commercial return but primarily a return most valuable in strategic terms, i.e. that which contributes to its objectives of developing industrial-military potential, decreasing its dependence upon the West, and if possible inducing Western reliance on the Bloc. The list of items which the Bloc has demanded on various occasions, as the sine qua non of a trade agreement or for delivery of coal, sugar, etc. is very long. It includes aluminum, silicon carbide, tankers, merchant vessels, spare parts, pig iron, ball bearings, etc. In many cases, especially when dealing with a relatively strong Western bargainer, the Soviet Bloc negotiators do not go so far as to say they will not consider an agreement which does not include such items; they merely specifically tie the export of certain amounts of specific Bloc commodities to Western commitments for delivery of specific strategic items.

One such case involved the exchange of Czech sugar. In the Czech-Norwegian Agreement of October 1950 the Czechs made the delivery of \$2.8 million worth of sugar specifically contingent upon Norwegian exports of iron ore, pig iron, ferro alloys, silicon carbide, pyrites, ilmenite, graphite, and aluminum. The other exports and imports to be exchanged were covered under a separate set of schedules. 4/

Embassy

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Embassy Oslo refers to a similar situation in which Norway was forced to export mica, chemical pulp, and rayon staple fibre in exchange for goods which the Embassy considered as "not of very great significance to the Norwegian economy". 5/

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B. Maximizing Ratio of Hard Goods for Soft Goods

As a part of maximizing the strategic benefits from East-West trade, Soviet trade policy is consciously directed towards maximizing the ratio of hard goods to soft goods imported.

Some very rough calculations of 1950 trade indicate that at least 55 percent of Western imports from the Bloc consisted of non-durable goods; e.g., goods which would in all probability be used up within a short period (say within a year) either for consumer or industrial purposes (e.g. foodstuffs, beverages, tobacco, fuels, animal and vegetable fats and oils). On the other hand consumer items constituted only 8 percent of total imports from the West, since almost all the Soviet Bloc purchases consisted of hard durable goods largely for terms of industrial purposes.

Another comparison of slightly different categories brings out the same point. The Mutual Security Agency has estimated that in 1950 almost two-thirds of Western European imports from the European Soviet Bloc consisted of foodstuffs, coal, and lumber while over two-thirds of Soviet Bloc imports consisted of machinery; vehicles, transportation equipment (one-third); metals and manufactures; textiles; and chemical products. 6/

It is unquestionable that, in general, the traditional exchange between East and West is one of grain, timber and other raw materials for Western industrial products. Thus, in a sense the basic pattern is one of Western goods of long term usefulness, or hard goods, exchanged

for

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for short term consumables. The high ratio of hard goods presently imported by the Bloc should not, however, be explained merely as due to the character of the areas--an industrialized West and a Soviet Bloc in early stages of industrial production. Actually, according to figures of the Economic Mission for Europe (ECE) Eastern European imports of machinery from the West in 1938 represented only 18 percent of total imports while in 1950 they represented 36 percent. 7/

Still another set of statistics shows the distortion of the traditional trade composition and emphasizes the effects of the forced industrialization of the Soviet satellites. OIR Report 6047 "East-West Trade Continues to Decline", October 21, 1952, contains the following summary statement:

"...Capital goods still (in 1952) represent a larger proportion of Soviet Bloc imports from the West than they did before the War, accounting in 1950 for 64% of Bloc imports from the West as contrasted to a prewar percentage of 52. On the other hand the percentage of Soviet Bloc imports devoted to consumer's goods has been considerable less than prewar (27% as compared with 16%)" 8/

It should be recognized that present Soviet Bloc policies exaggerate the balance to the extent of restricting what would be a normal Westward flow of industrial raw materials and manufactures and semi-manufactures, particularly from Czechoslovakia. Whatever economic factors promote an imbalance in the exchange of hard and soft goods, it is important to recognize that the maintenance and exaggeration of this ratio is a specific Soviet policy.

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The following are examples of this Soviet tactic of demanding a highly favorable ratio of hard for soft goods.

a. In mid 1951 negotiations with Norway, the Poles specifically demanded a ratio of hard goods from Norway to hard goods from Poland which would be more favorable to the latter than the provisions of the preceding agreement. ^{9/}

b. Embassy Budapest in summarizing Hungary trade (in October 1951) points out that Hungary's principal imports from France, Sweden and Belgium consist of steel, metallurgical semi-manufactures, and ball-bearings while its principal exports are foodstuffs and cotton textiles. ^{10/}

c. The report summarizing statements of two former Czech trade officials cited previously pointed out Czech insistence on soft goods: "They agreed that during the negotiations for a trade agreement the Czechoslovakian Delegation offers primarily 'soft goods' and demands primarily 'hard goods'." ^{11/}

d. The Austrian-Rumanian trade negotiations were reportedly broken off because of Rumanian demands for large quantities of "hard goods in exchange for non-essentials". ^{12/}

e. The Austro-Hungarian compensation agreement of 1949 was cited in a despatch from Vienna as an example of the inequality of hard goods - soft goods exchange between the two countries. ^{13/}

"Intrac, Communist-controlled East-West trade concern, scored major success by engineering one million dollar Austro-Hungarian compensation deal placing Hungarian salomi honey, paprika, and other slightly less luxurious foodstuffs on Austrian markets against steel, spare parts, tools and drills from Austrian Alpine-Montan, Steyr, and Boehler works. Intrac deals represent major dissipation of some of Austria's most important trade assets and thus country's economic substance by shipping hard against soft goods, financed by Creditanstalt-Bankverein and already in process of delivery."

f. The pursuit of the same policy in the Far East is indicated in an article entitled "The Accomplishment of Foreign Trade in Shanghai." In summary, the article describes the way in which lesser essentials used to obtain strategic items in line with the new Soviet imposed policies:

"Shanghai

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"Shanghai is our important foreign trade port. The history of foreign trade in Shanghai is a bloody one. Important agricultural products were exported for exchange with surplus goods and luxuries from capitalist countries. Now we use onion, turnips, and crabs to exchange for motors, medicines, diesel oil, gasoline and industrial materials". 14/

The official Soviet Government organ Vneshnaya Torgovlya (Foreign Trade) announced this new Chinese trade policy in an article in 1951, in its statement that:

"The Chinese People's Republic imports only goods which are necessary to the national economy.../In 1950/ the import of grain and a number of other food and consumer goods, and also luxury items, was stopped. In 1951 further changes in China's imports have taken place in the direction of increasing the relative share of machines and equipment." 15/

The terms of trade for Austria with the Soviet Bloc have been cited as particularly disadvantageous, this is brought out in a despatch from Vienna in April 1952. The relative cost of import and export commodities were analyzed as follows:

"In the period from August 1950 to January 1951, the average price for Polish coal was \$12 a ton. In 1951 by February the price had increased to \$21 a ton. January 1951, one ton of fertilizer was sold to Poland for \$54 thus at this time one ton of Austrian fertilizer would buy about 4.5 tons of Polish coal."

"The price of fertilizer sold to Poland is now \$67. At present, therefore, Austria can only obtain a little more than 3 tons of coal in exchange for a ton of fertilizer. One may conclude then, that, the terms of trade for Austria vis-a-vis Poland have worsened, at least on the basis of the present example." 16/

The problem facing the Austrian economy is highlighted in additional comment by pointing out that despite this increase in the cost of trading with the Soviet Bloc it is still somewhat more economical than trade in this particular commodity would be with the United States.

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C. Increasing Soviet Demands

It must be recognized that the nature of Soviet objectives and bargaining is such that Soviet "satisfaction" with any current trade agreement, as regards the inclusion of strategic items, offers no assurance that similar quantities will meet with equal approval later on. On the contrary, the evidence suggests that Soviet demands for strategic goods can almost be called insatiable. Once acceded to, the Soviets will press for increasingly larger shipments and other concessions in exchange for the goods desired by the West. Unless coordinated Free World economic policies are able to support the bargaining position of individual Western countries, the Soviet Bloc will continue to exert its unwarranted advantage. The following are but a few examples of this tactic:

a) In 1950 the Poles received 750 tons of aluminum from Norway. In the December 1950 negotiations they demanded, as a condition for an agreement, a commitment for 2,750 tons of aluminum and the right to purchase for immediate delivery modern fast coastal vessels. 17/

b) In the mid-1951 negotiations with Austria the Poles asked, among other things, for 2,500 tons of aluminum in contrast with 300 tons stipulated under the previous agreement. 18/

c) In negotiation with the Danes in late 1951 they insisted upon increased quantities of strept omycin. 19/

d) The Czechs also pressed the Norwegians for additional strategic items. In the negotiations in the fall of 1951 they demanded copper, molybdenum, nickel, and zinc in addition to the strategic commodities previously imported. 20/

e) An ECA official in Paris at one time commented upon the pattern of increasing Soviet pressures and developing Soviet advantageous terms of trade. These comments were made in mid-1951 to the effect that whereas the OEEC countries could formerly count upon receiving about 10 million

tons

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tons of coal a year from the Soviet Bloc, mainly from Poland, at prices roughly equivalent as those prevailing for Ruhr coal, at the present time imports from Poland are flowing at an annual rate of only about 8 million tons, but at prices which are double those prevailing in 1950 and closely approximating the c.i.f. US coal cost. Thus, in effect Polish coal is being imported in 1949 at an annual rate of about 58 percent below 1948 and with prices 100 percent above those of 1948. Likewise grains are offered above world prices, and the increase timber exports to the UK from the USSR have coincided with the reduction of timber deliveries to the Netherlands and other countries. 21/

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D. Additional Pressures

The Soviet Bloc does not confine its efforts to extract or increase the receipt of strategic commodities to the period of actual trade agreement negotiations. Persistent pressure, frequently bordering on outright intimidation and threats of reprisal, is often brought to bear on weaker trading partners throughout the term of the agreement in the attempt to effect quota changes or substitutions favorable to the Bloc. A few examples of this tactic are cited below:

a. In early 1951, the Polish Embassy in Rome asked the Italian Foreign Office for an additional 5,000 tons of high grade zinc ore and offered to increase their coal exports by 80,000 tons as compensation. When they were first turned down, the Poles replied with an intimated threat that if this additional commitment were not undertaken it might be difficult to maintain the present rate of Polish coal deliveries for which the Poles were already committed in the existing trade agreement. 22/

b. Our posts in both Prague and Copenhagen report the case in which Czechoslovakia, after having received Danish exports under the trade agreement refused to fulfill its commitment to deliver two turbines for the city of Copenhagen unless Denmark agreed to purchase copper and zinc and other items for the Czech account. This was one case in which the pressure was bluntly termed blackmail by the Western nation, and in December 1951 the Danes were reported preparing to place contracts elsewhere. 23/

c. A similar type pressure was recently exerted upon the French. M. Charpentier, the Chief of the Economic Section of the French Ministry of Foreign Affairs, was asked to supply the Soviet Union with rubber. M. Charpentier said that he told the Russians that France had never sold rubber to the USSR "It is on an import basis with respect to rubber". M. Charpentier then stated that the Russians offered to make sterling available to France, if the French would buy rubber in Malaya for the Russian account. This offer was also rejected by the French. The Russian representative then told the French that their previous order to supply corn should be considered as withdrawn because of the French refusal to sell rubber, but that the Soviet Government would reconsider the sale of corn if the French would sell copper and undertake to construct tankers for the USSR. The reply of the French was that they would not trade in tankers since the French themselves needed them and the situation with regard to copper was similar. 24/

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E. Strategic or "Essential" Goods as Condition
for Purchase of Hard-to-Market Goods

In addition to demanding strategic goods for "strategic" or "essential" goods it exports, the Soviets bargain to obtain commitments for delivery of strategic goods in still another fashion, i.e., by offers to provide the West with markets for goods not readily saleable elsewhere. From time to time, the USSR or satellites have intimated that they would purchase certain consumers' goods or other goods which the West can only sell at less advantageous terms, provided they are accompanied by designated strategic materials which the Bloc has difficulty in purchasing. This particular tactic was extensively employed as an inducement during the Moscow Economic Conference negotiations, and from present indications will be utilized increasingly in the future. The tactic is not altogether new. It is the governing principle behind the trade agreements to purchase fish, agricultural products and textiles from Norway and other countries, and it might be an element as well in recent citrus purchases from Italy. The Bloc is aware of the long-range value and potential advantages of establishing itself as an available market, in the eyes of Western industries and exporters particularly, for goods which are not readily sold in the West. As mentioned above, such overtures are frequently accompanied by relatively advantageous offers, at least for a period of time, in order to stimulate and foster Western dependence on Eastern markets, affording the Bloc an increasingly effective leverage in transactions involving strategic goods.

How

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How this tactic works to the detriment of the West is readily illustrated by the Czech-Norwegian negotiations carried on late in 1950. Norwegian negotiators apparently considered the proposed agreement unsatisfactory. Polish failure to agree to the delivery of 900,000 tons of required coal would have caused a breaking-off of the negotiations, had the pressure of domestic fishing interests, depending upon Polish purchases of their product, not overridden the firm stand taken by Norwegian representatives. 25/

A similar situation has arisen between Czechoslovakia and Turkey. The Czechs in 1951 were making the purchase of Turkish tobacco contingent upon simultaneous purchase of Turkish copper. 26/

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II. PRICE MANIPULATION

An excellent illustration of Soviet trade tactics in implementing its strategic economic policy is found in the price manipulations practiced by Soviet Bloc state trading monopolies.

The prices charged for Soviet Bloc products and those paid by the Bloc in importing from the Free World may be in line with competitive world prices in many cases. However, there are also numerous instances of price manipulation. Soviet prices for external trade are rigged to gain maximum exploitation of the "competitive" Western market in furtherance of strategic state ends. The Soviet pricing system permits such manipulation in that it is relatively divorced from the supply and demand determinants and does not directly represent production costs which in general govern price policies in free enterprise economies.

[REDACTED] pointed this out as follows:

25X1C "As a rule Foreign Trade Ministry officials do not know production costs of export goods since production is completely separated from the trade. I have heard many complaints concerning this from people connected with production. Prices paid for export goods do not represent actual production costs, but are determined, as are all other transactions between these two types of national corporations, on the basis of some very complicated keys." 27/

The primary role of strategic considerations and the secondary role of prices is also reflected in the Polish trade policy as described [REDACTED]

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25X1X [REDACTED]
"With

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"With regard to the principles on which Poland conducts her foreign trade, the essential goal is that of obtaining strategic materials. Exports serve to pay for imports. Prices are a secondary consideration." 28/

Differential price policies are encountered in both purchasing and selling activities. The specific tactics most usually fall in one of the following categories:

- (a) Premium prices paid for strategic goods.
- (b) Premium prices paid for other goods as inducement to trade.
- (c) Soviet Bloc commodities sold at low prices as inducement to trade.

In addition to these inducements to trade, there are numerous instances in which the Soviets, for their own benefit, clearly charge as high prices as the traffic will bear. Free World traders in coal and grain have repeatedly reported such manipulation, and in some cases have claimed the overcharging was double.

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A. Premium Prices Paid for Strategic Goods

The Soviet Bloc frequently offers premium prices for strategic goods which it desires in clandestine dealings, in trade agreement bargainings, and in contracting with individual exporters. The reports on this subject are particularly voluminous, and although all of them can not be fully substantiated as to the actual consummation of the contracts, the reports are sufficiently numerous and similar to prove the existence of a very definite Soviet Government policy with regard to premium price offers.

A few of the many examples are cited below;

1. HICOG Benn has submitted several comparisons of the prices offered by the Soviet Bloc and the prices prevalent in the Free World which afford some good examples of the premium prices offered by the Soviet Bloc for strategic items. 29/

Dollar Prices in East-West Trade: January 1952

<u>Commodity</u>	<u>East-West Trade Prices</u>	<u>Free World Prices</u>
Sheet steel	\$ 193-250/ton	\$ 69/short ton
Aluminum	\$ 835/ton	\$380/short ton
Copper	\$1240-1292/ton	\$662/short ton
Zinc	\$ 738-767/ton	\$400/short ton
Lead	\$ 550-600/ton	\$380/short ton
Mercury	\$ 220/flask	\$205/flask

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<u>Commodity</u>	<u>East-West Trade Prices</u>	<u>Comparative Prices (US)</u>
Phenol	Guilders 2.90 / kg	Guilders 1.59-1.60
Glycerin	\$125-140 / 100 kg	Crude / \$14 / 100 kg
		Refined \$78 / 100 kg
Nickel	\$17.83 / kg	\$1.25 kg
Wolfram	Guilders 59 / kg	Guilders 50 / kg
Ferro vanadium	\$14. - 18.55 / kg	\$6. - 7. / kg
Titanium	\$18.55 / kg	\$13.20 / kg
		(Hot rolled & forged bar prices)
Ferro molybdenum	\$28.05-39.00 / kg	\$2.91 / kg
Black steel plates	\$3.25 / ton	\$142. / ton
Oxide molybdenum	\$16.70 / kg	\$2.51 / kg
Copper	\$1135.-1165 / ton scrap	\$700 / ton
	\$1350.-1370 / ton electrolytic	
Lead	\$522-600 / ton	\$414. / ton
Caustic soda	\$130 / ton	\$32.50 / ton (flakes)
Mercury	\$221 / flask	\$207-210 / flask

2. In 1951 ECA officials reported to have heard complaints of Western Europeans about the difficulties of procuring Turkish copper and reports that copper was being shipped to the Soviet Bloc. In one instance the German Delegate to the ECO Commission of the OPEC reported that Turkey was shipping copper to Czechoslovakia at 60 cents a pound as compared with the German price of 52 cents. Another report placed the prices offered by the Bloc between 64 and 67 cents a pound as compared with the official US price at that time of 50 cents a pound. 30/

3. Among the other reports of premium prices was one pertaining to the price of silicon sulphur. It was reported that in May 1951 the Italian Government approved the export of 50,000 tons at a price of \$225.00 a ton while the normal price was between \$110.00 and \$115.00 a ton. 31/

4. The reports of premium prices being offered for ball bearings have been quite numerous. In late 1951 they were specifically cited for Italy and Sweden as being 40 to 50 percent above the normal price levels. 32/

5. A similar situation is reported with regard to Austrian trade. Embassy Vienna submitted a table of comparisons between Western and Eastern prices paid for Austrian exports: 33/

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<u>Item</u>	<u>Period of Time</u>	<u>Price-West</u> (per metric ton)	<u>Price-East</u>
Staple fiber	March 1952	\$771 - West Germany	\$900 - Poland
Nitrogenous fertilizer	March 1952	47 - United States	62.90 - Poland
Refined steel	March 1952	610 - Italy, France	1110 - Czechoslovakia
		620 - Italy, France	1070 - Czechoslovakia
Structural steel	March 1952	260 - Italy, France	430 - Czechoslovakia
Magnesite bricks	March 1952	110 - Generally	168 - Hungary
Aluminum	February 1952	683 - Switzerland	700 - Poland
Newsprint	March 1952	185 - West Germany	295 - Hungary

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SECRET - SECURITY INFORMATIONB. Premium Prices Paid on Non-Strategic Goods as Inducement to Trade

There are also reports of Soviet Bloc payments of higher prices for non-strategic goods for which the West desires a market, thus affording the West an inducement for further trade with the Bloc. A report on Danish trade received in January 1950, stated that:

"Although by comparative volume Czechoslovakia ranks rather low among Denmark's trade partners, yet trade with this country is important. Czech price offers for the traditional Danish export items usually have been favorable, while in other markets Denmark meets increasing export difficulties because of its prices". 34/

A report from our Icelandic Embassy in December 1951 states that the Poles pay higher prices for Icelandic goods than most other purchasers. 35/

Although case examples of these tactics can be given, it would be extremely useful to have prepared a thorough study of Soviet pricing policies. These examples are merely indicative and serve to support the general outline of the Soviet Bloc practices. The sample, although large enough to support the existence of the suggested policy, is too small to indicate the extent to which Soviet prices are generally below or above world prices and the specific conditions. The significance lies not so much in the fact that the prices vary (for any large buyer or seller may take advantage of his "monopoly" position), but that the Soviet Bloc does exercise this advantage, and uses price manipulation as a definite tactic to maximize its strategic advantage in trade with the West.

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[REDACTED] has described Czech pricing policy in its trade in the markets of the Free World as follows:

"I deem it necessary to give a general idea of normal methods used in pricing goods on free markets. The policy generally applied to the free markets could be characterized briefly: to sell and buy within the limits of the foreign trade plan for the best world prices. Under such a policy the profits are not decisive and sometimes play no role at all. This is true in cases where hard currency is obtained for goods manufactured from domestic raw materials and with domestic manpower. In Czechoslovak exports, for instance, such a place is held by glassware. With these commodities production costs in Czech crowns are given almost no consideration in the Czech foreign trade policy". 36/

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Similar comments on Czech pricing policies are made by [REDACTED]

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"The selling prices of some Czech goods are considerably higher than those of the world market price. In order to retain the foreign market, the export corporations are charged with the function of subsidizing exports, i.e., to practice 'dumping' on a large scale. The purpose of this practice is not only to make Czech goods available to foreign consumers at prices no higher than those prevailing abroad but also to enable under-selling by the Czechs. The Czech authorities candidly admit the aims of this practice; the producers in capitalistic countries are forced either to lower prices (at the expense of lowering wages) or to discharge workers. In either case, dissatisfaction is sown. In the case of exports to the United States and Canada, products of the artificial flower industry were subsidized up to 60 percent.

"According to sources, the differential between the 'dumping' price and the actual worth of the product is covered by an inland revenue called 'general taxes'. These taxes, which are levied on all consumer's goods within the CSR, are extremely high. Some imported goods and textile goods in non-rationed sale are taxed up to 1,000 percent." 37/

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C. SOVIET BLOC COMMODITIES SOLD AT LOW PRICES AS INDUCEMENT TO TRADE

Soviet Bloc sales at prices considerably below market prices, and apparently below domestic prices, have been described in some instances as dumping. It may be helpful to take note of the definition of dumping as stipulated in Section I of Article VI of the General Agreement on Tariffs and Trade;

"The contracting parties recognize that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry. For the purpose of this Article, a product is to be considered as being introduced into the commerce of an importing country at less than its normal value, if the price of the product exported from one country to another

a) is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country, or,

b) in the absence of such domestic price, is less than either

i) the highest comparable price for the like product for export to any third country in the ordinary course of trade, or

ii) the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit."

Although it may be accurate in some cases to apply the term "dumping" to Soviet practices in the light of the above definition, such terminology may be misleading if it implies motivations such as the need for disposing of surplus production commonly associated with such activity in the Free World, but not a likely phenomenon in the present Soviet economic system. Soviet Bloc sales at lower than normal prices are usually a part of the bargaining for strategic goods or efforts to obtain dollars. It appears

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that such pricing policies may sometimes be motivated by the relatively long range interest in obtaining a foothold in a market. However, in most instances, the sales are directly tied to pending or anticipated exchange involving strategic goods.

The following are representative of the many reports of such pricing practices.

1. Soviet products priced low to obtain Austrian non-ferrous metals. Embassy Hague reported in January 1952 that Soviet products were offered in Italy at 25 percent below world market prices, in exchange for pyrites, copper, and aluminum. 38/

2. USSR offers coal to Japan at low prices. The reported Soviet offers of Sakhalin coal to Japan at \$10 a ton (presumably f.o.b.) in contrast to US price of \$25 - \$30 per ton is another example of this tactic. The Soviet price, even with allowance for quality differential and transportation cost, is relatively low and constitutes an attractive overture to the Japanese iron and steel manufacturers. Japanese editorials have stated that the Japanese leaders are anxious to promote this trade with the USSR, primarily because of the cheaper prices. 39/

3. Poland offers Austria coal at discount if aluminum received in return. The Austrian-Polish trade agreement covering the period of August 1, 1951 - July 31, 1952 contained a specific provision whereby Poland agreed to sell the coal scheduled within the quota, at a discount of \$0.50 per ton in exchange for additional quantity of 200 tons of aluminum and semi-finished aluminum products. The discount was not to become effective prior to the full delivery of the basic aluminum quota of 300 tons. This case could hardly be termed "dumping" in view of the high prices, but it does illustrate the technique of tying lower prices to strategic receipts. 40/

4. Embassy Praha reports cases of Czech "dumping". 41/ Embassy Praha reported what it called "a clear case of dumping" of Czech goods in a despatch in December 1949. 5,000 tons of Czech malt was offered to a New York firm at \$2.05 per bushel, duty paid in Brooklyn. Investigation showed that the official Czech wholesale price was quoted as 706 Czech crowns per 100 kilograms in the Official Gazette, Czechoslovakia Republic No. 43, March 1947. This would be equivalent to \$3.07 per bushel, according to Embassy calculations. An official of the Czech Malt Export Company stated that 401 crowns per 100 kilograms was the official cost of barley, making the manufactured cost of malt produced domestically in Czech breweries about 625 kos per kilogram or \$2.72 per bushel. According to consular invoices malt was being sold in US during 1949 (none was shipped in 1948) at a price, including insurance and freight to New York of \$1.38 per bushel.

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The same report showed price offers for different types of radios were very considerably below the official dollar equivalent of the Czech domestic factory prices (excluding general tax).

Czech Domestic Factory Prices

Export Prices

\$ 46.38	(dollar equivalent)	\$21.00
\$116.30		\$60.00
\$ 91.50		\$45.00
\$ 11.70		\$65.00
\$ 56.60		\$30.00

5. Czechoslovakia exports wool berets at prices calculated below production cost. On April 17, 1950 the export monopoly firm of Centrotex presented for certification a consular invoice covering the shipment of 2,750 dozen wool berets priced at \$2.75 and \$3.00 a dozen to a New York corporation. This is equal to 11.5 and 12.5 crowns per beret. The invoice states that such or similar merchandise is not sold on the home market for home consumption.

The Embassy reported however that wool berets are available at government retail stores in Praha, priced at 62, 65 and 85 crowns a piece, depending on the quality. For wool berets sold in Czechoslovakia the officially prescribed wholesale mark-up is 7 percent of the factory price, the retail mark-up is 25 percent of the wholesale price and the general tax is 35 percent of the factory price. Applying these figures to the cheapest beret, i.e., that priced at 62 crowns, the factory price works out to 36.7 crowns, the wholesale price to 39.3 crowns, the retail price to 49 crowns and the general tax to 13 crowns. Even allowing for the inclusion of a considerable profit in the factory price of 36.7 crowns for the cheapest beret sold domestically, it would seem that the cost of production would be considerably in excess of the 11.5 and 12.5 crowns for which berets are being exported to the United States. 42/

6. Embassy Praha forwards additional evidence of Czech sales at prices below production cost.

"Identical shoes to those being exported to the United States have been found on sale in the DAREX store in Praha for \$3.00 per pair (150 Czech crowns). DAREX is a government retail store selling its products solely for designated foreign currencies or gold, and not for the domestic currency. As a result, it is believed that DAREX sales should not be considered as being in the ordinary course of trade for home consumption. However, it is known that in the case of certain textiles the standard DAREX mark-up over the export price is 30 to 35 percent. As the price of \$3.00 represents a mark-up

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of nearly 250 percent over the export price of \$0.87 (appearing on the consular invoice) for these shoes, the statement regarding cost of production appears to be untrue.

The shoe most similar to those being exported, and sold in the ordinary course of trade for home consumption, was inspected and priced at a JAS national corporation shoe store. The sandal appeared to be inferior to that being exported and was sold for \$10.90 (545 crowns) a pair. According to official Czechoslovak publications, the wholesale mark-up for women's sandals is 5 percent of the factory price, the retail mark-up is 20 percent of the wholesale price, and the general tax is 120 percent of the factory price. Taking these figures and the price of \$10.90, the factory price of the shoe works out to be \$4.44. This also indicates that the alleged cost of production of the shoe as stated in the invoice i.e., 77 cents is untrue."43/

7. Czech Motorcycle Sales.

Two cases of widely differing domestic and export prices were cited by Embassy Praha in April 1949. A motorcycle which was offered for sale, domestically, at the retail price of approximately \$600 or \$877 if bought without a special permit, was listed on a consular invoice, f.o.b. factory, at \$249 to US importers. 44/

8. There are numerous other reports including those of Czech sales of automobiles in Western Germany at low prices, and according to the Embassy Budapest, sales of Hungarian cotton textiles to Sweden, France and Belgium, "often at dumping prices". 45/

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referred

to many of these sales, specifically citing that low prices incurred the loss of Czech crowns.

As far as he can remember, the following articles were exported to the US in the period 1948-50, with a loss in Czech crowns; chocolate and chocolate products exported by Centromise, Prague (here the calculation even in hard currency brought a loss for Czech trade, since a large part of raw materials was bought for dollar instruments because of the inability of the State planning agencies to get these raw materials elsewhere). The same happened to some woolen and cotton textiles. Some types of glassware and motorcycles have been sold with no profit at all. The dollar instruments obtained in trade with the US were used mainly for payments of purchases on the US markets, at the present time very limited, on eventual "black markets", mostly in Vienna, Austria,

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for the payments of various international obligations, for diplomatic representations, and for the purchases of British pounds, which is the main hard currency in Czechoslovakia at the present time. 46/

He also spoke specifically of Czech efforts to evade US anti-dumping laws.

"It can be expected that in order to evade the US anti-dumping law, the Ministry of Foreign Trade will offer the old goods under new names and under new commercial markings to deceive responsible US authorities and make them believe that these goods, exported under much lower prices to overcome higher tariffs in effect after the GATT's termination, are entirely different from those exported previously. This would apply mainly to the glassware, where even some typical Czech designs will be changed. The Tariff Department of the Foreign Ministry believes, however, that it would be difficult and very complicated for the US authorities to enforce anti-dumping laws and not hurt at the same time exports of some Western European countries. I believe that in order to obtain dollars, the Czech Government will try to maintain some trade with the US, limiting it to a rather small number of goods. Even if the Trade Ministry abstained from all purchases on the US market, the Government would still need several millions of dollars annually for other purposes. I doubt that the USSR is giving or will give dollars to the Czechoslovak Government. I would advise US authorities to keep a close eye on Czech exports of glassware and linen after the termination of GATT. The Czechs will probably try to do some more business with other free dollars markets, like Cuba, Canada, etc. 47/

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III. Soviet Delay and "Threat of Termination" Tactics

On numerous occasions the Soviet Bloc countries have unilaterally delayed shipments to which they were committed in a deliberate attempt to create pressures on the Western trading partners. In some cases this technique has been carried to the extent of unilateral termination of deliveries. Some examples of the utilization of this tactic or of the threat of delay or termination follow:

A. When the devaluation took place in Western Europe in the fall of 1949, the Soviet Bloc governments, in some cases, were protected from loss by provisions in the trade agreements which provided compensation in line with the new rates of exchange. In those cases in which such provisions were not included the Soviet Bloc countries sometimes unilaterally and "illegally" delayed deliveries, and imposed pressures to obtain adjustments to which they were not entitled. For example, Oslo reported in June 1950 that the Czech government had refused to deliver 12,000 tons of sugar, remaining as a balance from the Norwegian-Czech trade agreement of March 30, 1949. This refusal to deliver was put upon the grounds that the value of the commodity stipulated in the agreement in terms of Czech crowns had appreciated in view of the Western devaluation. The Czechs consequently demanded compensatory increases in the delivery of Norwegian goods, even although the trade agreement did not provide for such an adjustment. Finally, Norwegians agreed to deliver the following additional items in order to obtain the sugar which the Czech government had already committed itself to delivery, but which it had unilaterally withheld: 10,000 tons of iron ore concentrates, 3,100 tons of hardened whale oil, 100 tons of rayon pulp, 10,000 tons of pyrites, and 2,500 tons of ilmenite concentrates. 48/

B. Another example of the advantage gained from delivery delays occurred in the Iceland-Polish negotiations. As of April 12, 1951, Poland had failed to deliver any of the 1,000 tons of sugar or 1,500 tons of rye flour

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flour which they had been committed to deliver in 1951. The Poles promised to conclude sales contracts for these products early in the year, but had persistently stalled in negotiating their completion with the Icelandic buyers. In April the Embassy reported that the Icelandic representatives expected that when the contracts were actually signed that the Poles would demand world prices prevailing for the items at the time of the signing of the contract. The Poles were also demanding an increase in the prices of other exports (coal, iron, and steel) which were then being delivered at the prices existing when the individual orders were accepted. On the other hand, prices for Icelandic deliveries to Poland during 1951 were fixed in November-December 1950.

As a result, the overall price level of Polish deliveries was expected to be considerably above the levels existing in November - December 1950, when the trade agreements were negotiated, and Iceland was placed at a serious disadvantage because the prices for its exports were fixed at the earlier level. It was predicted, at that time, that Iceland might have to cut the volume of its imports from Poland or increase its shipments in order to have reciprocal trade at equal levels. Thus, the Poles, by unilaterally delaying their deliveries of certain items and forcing renegotiation on prices

There are numerous other examples of this tactic, a number of which were cited in the discussion of trade deals in the previous sections.

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IV. GOVERNMENT SPONSORED ILLEGAL PROCUREMENT ACTIVITIES

In implementing its foreign economic policy, the Soviet Bloc makes full use of illegal procurement practices. The important fact which is not always remembered in considering evasions of Western controls is that all foreign transactions involving the Soviet Bloc are not only controlled and directed by the respective Bloc Governments, but are in fact governmental operations.

The Soviet Bloc government is an active participant, actually financing and promoting transactions as an important component of official foreign policy. It is never a case of merely sporadic attempts to evade restrictions, nor is the main problem one of individuals intent on deriving lucrative profits arising out of illegal transactions; these factors are incidental. Basically, the West is faced with a state controlled and directed conspiracy, with the systematic and concerted efforts of Soviet Bloc governments to render ineffective the security regulations of Western governments.

The circumvention of Western controls is "official" Soviet policy. The presence of large and active Communist organizations in many countries, centrally directed and responsible to Moscow, provides established lines of communications which greatly facilitate the procurement and flow of goods.

The Soviet Bloc has not confined itself to dealing with the black marketer, who is ready to disregard or evade the law for his own profit; but the Soviet representatives have also done all possible to exert direct
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and indirect pressure on the private Western trader, not only in an effort to exert internal pressure on the governments concerned to abandon controls, but also to countervene existing regulations. The Moscow Economic Conference was only one example of large scale open pressure of this kind. The more dangerous pressure is exerted without publicity on the individual segments of the population. Soviet agencies have been engaged in the evasion and outright circumvention of the laws and regulations of their trading partners. In direct counterintervention of peaceful commercial and diplomatic practice they have undermined their laws and interfered with their internal economies.

In order to counteract increasingly severe Western controls over the shipment of commodities to the Bloc, the Soviets have developed an intricate network of clandestine channels designed to evade existing security regulations. Devices used to circumvent export controls are too numerous to review in this report. However, an excellent summary of the more frequently encountered ones is given in a report on East-West trade prepared for the office of the High Commissioner of Germany lists the following and will serve to illustrate the scope of the problem: 50/

- a. Shipments through intermediaries in third countries who are not parties to COCOM or who deliberately disregard the embargo aspect of the goods.
- b. Falsification or forgery of documents
- c. Falsification of end-use guarantee when applying for an export license
- d. False description of goods
- e. Shipments

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- e. Shipments to satellite countries on export licenses to other countries, redirected on the high seas or freighted by devious routes
- f. Selling for cash to West German firms or individuals goods which it is known may not be exported but which it is also known will ultimately be transferred to the East Zone
- g. Preparation of documents with technical inexactitudes to ensure pre-arranged confiscation by Soviet Zone officials of goods at the Zonal frontier
- h. Freightling component parts of machines on the embargo list to a third country where they are reassembled and shipped eastwards by that third country
- i. Selling blue-prints to East Zone and Moscow of machines on the embargo list
- j. Smuggling

While the above listed examples were discovered primarily in "illegal" transactions occurring in the flow of German East-West trade, they are fairly representative of the wide variety of subterfuges commonly employed by the Soviet Bloc throughout the world to circumvent our controls and obtain much needed commodities.

A report from HICOG Frankfurt in describing illegal trade activities in Germany stated "the Communist Party of the Soviet Zone of German (SED) has established an extensive trading organization to exploit the profits accruing from violation or evasion of West German economic regulations..." They "engage in sales and purchases outside the trade agreement and sponsor black market operations ..." The organization is directly financed by the Communist Party and profits used for Communist activities. 51/

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The SED also organized an organization in the Soviet section of Berlin in 1951 to conduct trade on behalf of the satellites. The capital for this so-called China Export Corporation was reportedly contributed equally by the Soviet Zone (the SED) and the Chinese Government. 52/

The Soviet's operations in Austria are a clear example of the way in which the Soviet Bloc combines legal and illegal activities in pursuing its strategic economic ends in the field of trade activity. In March 1951, Embassy Vienna sent in a comprehensive report on the problem of the over 200 retail stores which were established and being operated by the Soviets in the Soviet sector of Vienna and throughout the Soviet Zone of Austria. The summary of this report is most interesting in that it revealed Soviet economic tactics. Such operations are sponsored by the Soviet Government and are characteristic of a type of economic warfare against the West:

"These stores, generally referred to as USIA stores, serve as outlets for consumer goods produced by USIA (Soviet-controlled) plants and for illegally imported goods primarily from Eastern Europe, which are brought in duty-free under the guise of 'military shipments'. These stores violate most Austrian regulations applying to retail outlets. They operate without the customary trade license, sell liquor and cigarettes in contravention of government monopoly regulations, default on most taxes, and undermine the established retail structure by undercutting prevailing prices, offering imported products not available on the legal market and unrestricted quantities of rationed items, and keeping longer business hours. Although the goods offered are sold at an average of 20 to 30 percent below normal retail prices, profits from these stores are substantial and help defray deficits of the USIA complex. By inflicting serious losses in revenue on the Austrian treasury and by undermining legitimate retail enterprises they serve as an effective instrument for the Soviet penetration of the Austrian economy." 53/

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The other type of illegal activity should be mentioned specifically, that is, the smuggling activities through diplomatic channels of communications. Numerous reports have been received during the past couple of years concerning the use of the diplomatic pouch by Soviet Bloc Governments for smuggling of small volume strategic items, diamonds in particular. 54/

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V. SOVIET BLOC POSTERS INTRA-WESTERN RIVALRY

One of the key Soviet tactics in all fields is to foster rivalry among the nations of the Free World, and to take advantage of the competition and lack of coordination among the Western nations. The Soviet economic peace offensive is a weapon against which the West must be particularly on guard. There are numerous instances in which this intent can be seen clearly in the trade field. The following are a few selected examples:

1. Embassy Vienna reports that in August 1951, the Polish negotiators in an attempt to pressure the Austrians to enter into commitments for strategic exports told the Viennese Delegation that France was currently supplying "embargo size" bearings to Poland and 900 tons of aluminum. 55/

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2. [REDACTED] the Hungarians also pressured the Austrians to reduce their prices by reporting that Western Germany had offered steel and ball bearings at prices 40 percent below the Austrian offers. Our officers in Bonn in commenting upon this report stated that although German prices for ball bearings and steel are normally somewhat below Austrian prices, the initial reaction of the Federal Minister of Economy was that neither steel nor ball bearings were offered to Hungary at less than normal prices and that the price in all probability would be higher than normal. 56/

3. In the Swedish-Polish trade agreement negotiations in 1951, the Polish negotiators tried to increase the Swedish commitments for delivery of strategic goods by indicating that Belgium, Netherlands and other countries which were not normally Polish customers had expressed an interest in Polish coal, and had offered strategic metals including copper in return. 57/

4. The US Delegation of the Economic Commission for Europe meeting in Geneva reported in March 1952 that the Soviet Bloc countries had made various trade efforts to create the impression that they had an adequate supply of the commodities needed by the West. The US Delegation considered this an obvious attempt to split Western Europe from the US by combining an appeal to the West for trade and condemning the US as responsible for interfering with this exchange. 58/

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5. From the Hague it was learned in October 1951 that the Dutch considered their shipment of 5,000 tons of rubber plus five refrigerator ships in exchange for 12,000 tons of grain was justified on the basis that the United Kingdom supplies the Bloc with 7,000 to 8,000 tons of rubber monthly. 59/

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6. [REDACTED] reported in August 1951 that "the Ministry is trying very hard to get as much of needed materials as possible in a legal way, by concluding various trade agreements. In this it is rather successful in Britain, France and the Benelux countries. The Czechoslovak Government still counts on the lack of cooperation among Western countries. I know that various raw materials of Canadian origin were and still have been imported into Czechoslovakia from England." 60/

7. There are numerous other reports of specific Soviet directives to foster dissension among Western countries. Among them is an intelligence report [REDACTED]

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"The Russians in Hungary have informed the Communist Party that Stalin has given instructions to the effect that 1952 and 1953 are to be regarded as the great Peace Years. During this period everything will have to be done to frustrate the intentions of the Americans to attack the Soviet Union. It is argued that the Americans could not launch a war without the support of their Western 'satellites'. Among other measures the economic ones deserve the greatest attention. The Western satellites are dependent on economic aid from America and so long as they remain in this dependence and can find no alternative for it, they must take marching orders from America. Every possible cause for dissension and difficulty in the economic fields between America and Britain and the other Western satellites, or between the Western satellites themselves, must therefore be exploited to the full. For example, if a Western country experiences difficulty in obtaining raw materials or goods from America or from another Western country on account of high prices, shortage, or distrust regarding the real end-user, everything is to be done to supply that Western country from the East."... "This measure, however, must be treated as a political and not an economic one and no business can be done from any other point of view than that of satisfying a Western requirement under circumstances which might tend to wean the Western country concerned from its American interests and sympathies." 61/

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VI. ECONOMIC PRESSURES AND NON-ECONOMIC MATTERS

Another characteristic tactic of Soviet policy is the use of economic pressures or inducements for non-economic objectives, and vice-versa. The Communists argue loudly that so-called political considerations should be separated from trade, and they object to Western export controls on the fallacious ground that they inject political considerations into the trade field. Despite these arguments, Soviet tactics quite clearly and cleverly intermingle economic with non-economic considerations when Soviet advantage can thereby be gained. This is done in a variety of ways and for manifold objectives: embargos are imposed as reprisals for government measures taken against local Communists; hard currencies or other economic settlements are made the "price" for the release of foreign nationals "illegally" detained; and propaganda objectives are attained through the ostensibly philanthropic shipment of much needed commodities during election campaigns or political crises.

These examples, the details of which are given below, do not represent isolated instances, but are typical Soviet tactical Soviet manoeuvres in line with the general pattern of Soviet strategy and policy.

1. Our mission in Berlin reported in April 1952 that East Germany, in accordance with Soviet instructions to the satellites, embargoed trade with Greece "as a political measure" in reprisal for the sentencing of Greek Communists. At the time of this embargo \$400,000 of Greek tobacco was in transit via Hamburg and with the abrupt cancellation of the order the Hamburg firm faced bankruptcy. 62/

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2. Reports have been received to the effect that at one time the release of the Dutch business man held by the Czech Government was linked to certain trade arrangements with a Czech textile monopoly. 63/

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3. [REDACTED] expressed the opinion, also suggested by other sources, that "the present Czech Communist leaders are willing to release Oatis, but are primarily interested in deriving some economic advantage from his release". 64/

4. At least three instances are reported in which Hungary has attempted to tie the settlement of non-trade matters to the procurement of non-ferrous metals. In the negotiations for the release of Sanders, a British citizen arrested on spy charges, the Hungarians asked assurances that the British Government would permit inclusion of 5,000 metric tons of copper and 2,000 tons of lead in Hungarian import quotas under the resumed trade agreement negotiations. The Hungarians also attempted to use connections with the American Joint Distribution Committee (AJDC) to obtain copper. The President of the Hungarian State Planning Office offered to grant the Committee a more favorable forint exchange for charity dollars sent into Hungary if the AJDC would arrange to bring copper into the country. A similar proposal was made by the Minister of Foreign Affairs to the Israeli Charge d'Affaires, apparently in connection with the Israeli request that the Hungarian Government facilitate emigration to Israel. 65/

5. In 1946 the USSR exported grain to France at a crucial point while a coalition government was in power, but in 1947 when the Communist Party was excluded from the Schuman Government they were unwilling to consider a trade agreement. The Soviets do not hesitate to use food as a weapon if the situation appears to them to merit such action. 66/

6. During 1950, Embassy Rome reported two instances of the financial support gained by the Italian Communist Party from satellite trading activities. Early in the year there was publicity over the funds earned by the Polish trading agencies in Italy, for these funds were believed to be utilized to support the Communist Party. Later there were reports of an arrangement whereby Rumanian goods, disguised as gifts to the Italian people and allegedly free of charge, were brought in and sold instead, with proceeds going to the Communist Party. 67/

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VII FINANCIAL MANEUVERS

The Soviet Bloc engages in various financial maneuvers in attempting to maximize its benefits from East-West trade and extort concessions of strategic goods and foreign exchange from the West. The following illustrations are indicative of these Soviet practices. 68/

1. By early 1950, the USSR had accumulated an export surplus balance of 20 million kroner in trade with Norway. In the trade negotiations, the Norwegians attempted in vain to make arrangements to reverse this balance and eliminate the possibility of Soviet demand for settlement in dollars or gold. Furthermore, the USSR not only resisted settlement in commodities but would not accept payment in sterling and urged the Norwegians to continue their purchases and the development of the surplus, giving assurances that there was "no reason for Norway to worry about the Soviet surplus". When the debt was built up to 38.4 million kroner, the USSR demanded shipment of strategic materials -- aluminum, copper, and staple fiber as settlement. After having refused to permit adjustment a year previously when Norway would have been in position to balance trade by deliveries in line with the general composition of the trade rather than in dollars or strategic goods, the USSR finally agreed to accept a settlement of \$5 million in dollars "as a significant concession".

2. In another series of financial maneuvers vis-a-vis Austria the Soviet Bloc procured considerable dollar exchange. In this case, the Bloc derived an obvious advantage from the nature of its overtly decentralized but covertly coordinated trading apparatus.

Austria had concluded a series of trade agreements with Rumania, Bulgaria and Hungary for the mutual exchange of goods. At the termination of the agreement periods, Austria was in a creditor position vis-a-vis these countries to the extent of \$8 million. However, the agreements contained no provision for monetary settlement and Austria was unable to effect a satisfactory settlement. During approximately the same period, Austria had developed a trade deficit in its exchanges with both Poland and Czechoslovakia. The agreements concluded with these stronger satellites, however, provided for a monetary settlement of the imbalances existing at the termination of the agreement. Under the terms of the agreement Austria was obligated to make dollar payments to Czechoslovakia and Poland totaling \$10 million, while the \$8 million debt owed by the three other satellites remained undissolved.

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The intentional relation between these apparently independent trade agreements becomes evident from the fact that goods of Hungarian origin contributed to the development of Polish-Czechoslovak surplus vis-a-vis Austria. It is further interesting to note that a simultaneously developed Austrian dollar deficit of \$10 million in the European Payments Union was covered by a United States deposit. 69

3. An essential part of Soviet Bloc operations is its planned maneuvers to gain strategic profit from the perennial Western dollar shortage. The following is a case in point. 70

In 1949 the Czechs offered to supply Norway with sugar at particularly advantageous prices. The conditions for the development of this source of supply were Norwegian deliveries of strategic goods, such as ferro-alloys, silicon carbide, iron ore, pig iron, and pyrites, as well as fats and oils. Norway justified this arrangement to the West by contending that trade with the Soviet Bloc was necessary in order to avoid dollar markets and conserve dollar exchange. Although the trade agreement schedules specifically tied the receipt of sugar to the export of the strategic items listed above, Norwegian spokesmen minimized the strategic nature of the trade and contented that half the sugar was financed by exports of fats and oils. Our observers believed that the fats and oils could have been marketed in the West at the time, but the Norwegians asserted that "the reduction of Norway's trade deficit in Western Europe through such exports was not at the present juncture tantamount to reduction of Western European dollar or gold claims on Norway, since Norway does not anticipate drawing upon its EPU credit to the point where dollar or gold payments in any substantial quantity will be requisite." Thus trade with the Soviet Bloc -- even although it involved not only dollar goods but highly strategic items -- was considered preferable to direct dollar expenditures in the West. The strategic advantages accruing to the Soviet Bloc from this type of policy is obvious.

However, this was only part of the deal. In September 1950, the Norwegians had claimed they were not in a position to expend \$3 million in foreign exchange to purchase sugar in the West. Actually the net dollar expenditure would have been less if netted against dollar receipts for strategic goods shipped East. Ironically only six months later they turned over \$5 million to the USSR in settlement for imbalances under the trade agreement. Thus not only did the USSR manage to get the strategic goods it desired but also \$5 million in dollar settlement of trade agreement balances.

4. Still a further example of Soviet Bloc financial maneuvers to extract foreign exchange is provided by a Warsaw despatch which reported that:

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In negotiations between the Swiss and Poles concluded on December 16, 1947 the Poles flatly refused to honor obligations incurred about six months previously whereby certain trade balances would be allowed to accumulate as credits against the manufacture of Swiss machinery to be delivered under long-term contracts. Instead, the Poles were reported to have stated (frankly) that they must keep the clearing between the two countries as liquid as possible. Much to the chagrin of the Swiss, the agreement could only be concluded by Swiss concessions to pay the Poles for a certain percent of Polish exports in the form of free foreign exchange instead of pegging such payments against future deliveries of Swiss products. The net result of the agreement is that Switzerland extends credit to Poland and the latter is in a position to terminate the agreement at any moment without perceptible financial damage. 71

5. In another maneuver to extract dollars from the West, the Hungarian Government set up a "gift parcel" service. The firm called IKKA handles gift parcels and "certificates" and the arrangement is such that the donors pay in dollars or other hard currencies at exorbitant prices and the parcels are packed in Hungary using domestic products wherever possible. IKKA sales in the U.S. alone were estimated at about \$1.5 million in 1951. The possibility of evoking some type of anti-swindling legislation against IKKA is under consideration in the U.S. 72 The Czech Government is also attempting to obtain dollar exchange by means of the gift package procedure. 73

6. Another type of financial pressure was reportedly utilized in Paris. Soviet representatives are said to have approached about 300 small Japanese trading firms which were in financial difficulties with offers of "easy" credit in exchange for "silent participating interest" in the firms. 74

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NOTE

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